

MAKING CONNECTIONS



B.C. TEL

1991 ANNUAL REPORT

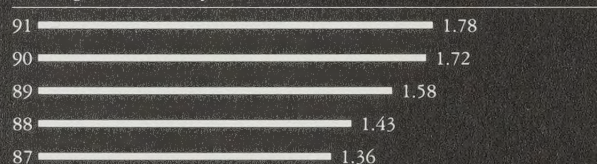


**B.C. Tel is the second largest telecommunications company in Canada.**

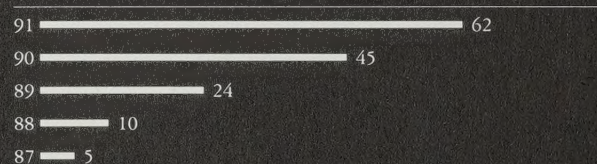
**Organized into three core business groups supported by a solid base of shared resources, the Company is committed to satisfying customer needs. Our mission: we make it easy for people to exchange information – anywhere, anytime – by devising imaginative telecommunications solutions that are economic and exceed customer expectations.**

	1991	1990	% Change
<b>Consolidated Highlights</b>			
Operating revenues (\$ Millions)	\$ 1,945.2	\$ 1,852.6	5.0%
Net earnings (\$ Millions)	\$ 201.0	\$ 193.2	4.0%
Ordinary share earnings (\$ Millions)	\$ 191.2	\$ 180.6	5.9%
Return on ordinary equity	13.8%	14.1%	(2.1%)
Earnings per share	\$ 1.78	\$ 1.72	3.5%
Dividends per share	\$ 1.10	\$ 1.02	7.8%
Ordinary equity per share	\$ 13.42	\$ 12.59	6.6%
Capital expenditures (\$ Millions)	\$ 460.7	\$ 461.6	(.2%)
Customer access lines in service	1,988,103	1,911,763	4.0%
Long distance messages (Millions)	394.3	357.3	10.4%
<b>B.C. Cellular Highlights</b>			
Cellular subscribers	62,289	44,504	40.0%
Penetration rate	2.6%	1.9%	36.8%
Estimated market share	56%	55%	1.8%
Average monthly revenue per subscriber	\$ 95	\$ 98	(3.1%)
Net earnings (\$ Millions)	\$ 6.1	\$ 4.5	35.6%
Return on equity	24.0%	31.0%	(22.6%)
Gross plant in service per subscriber	\$ 1,534	\$ 1,496	2.5%
Monthly deactivations (Churn Rate)	1.8%	1.5%	20.0%

Earnings Per Ordinary Share (\$)



B.C. Cellular Subscribers (Thousands)



It has been a year of change and achievement in the face of mounting challenges. In 1991, our revenues increased 5 percent; our expenses increased 3.9 percent; and our net earnings improved 4 percent, with earnings per share up 3.5 percent.

B.C. Tel made strategic alliances on two fronts: a joint venture in information management, through its subsidiary North-west Telephone Company, with ISM Information Systems Management Corp. (formerly Westbridge Computer Corporation); and an agreement between North-west Telephone Company and BCE Mobile Communications Inc. to develop and introduce personal communications products and to secure new radio communications licenses.

We also entered into an agreement with Concord Pacific Developments Ltd. to install on the former Expo 86 site a telecommunications system for North America's first fully operable fibre optics community.

While enduring an economic slowdown and weakened consumer confidence, we fought a strong fight against regulated competition at the Canadian Radio-television and Telecommunications Commission hearings considering the applications of Unitel Communications Inc. and B.C. Rail Ltd. / Lightel Inc. to compete in the long distance market.

As the economy struggles for recovery, Canadians on the whole are looking carefully at their lifestyle and spending habits. All of us are assessing priorities, and allocating expenditures with more care. B.C. Tel is no exception. By carefully monitoring all our business activities and paying even closer attention to cost efficiency this past fiscal year, we kept expenditures under control.

This year's achievements have been many and are detailed in the operations review. In this letter, we want

to discuss how our Company is changing and where we are heading.

Undoubtedly, our most important effort this year was restructuring our Company for the future. We have strengthened our long-term commitment to providing superior service to our customers. We have developed a service strategy that will drive every aspect of our business to meet this commitment. And the Company has been realigned to allow everyone in the organization to be more customer focused.

Our new organizational structure resembles an inverted pyramid comprising three business units serving different customer segments, supported by shared resource groups.

The restructuring is a manifestation of a less visible change: a change in the way we think and how we do business. Increasingly we find ourselves, to borrow a phrase from Thomas Jefferson, "more intrigued by the visions of tomorrow than by the dreams of the past."

#### *Turning Vision Into Action*

We couldn't be where we are today and know what we hope to achieve without having a vision. As someone said, if you don't know where you're going, any path will take you there. At B.C. Tel our vision is "to be British Columbia's pre-eminent telecommunications provider and a significant participant in selected telecommunications-related markets, including selected markets outside B.C." Our vision gives us a clear sense of purpose and direction; of knowing which path to take to achieve our goals and objectives.

But nothing is ever as easy as it seems. Our path twists and turns through a changing regulatory environment, an uncertain national economy, the urgency of changing customer demands, the compelling need to keep costs in line, and the threat of artificial competi-

tion in the crucial long distance market.

In August 1991, B.C. Tel filed its written argument with the CRTC against a type of competition in the long distance market that cannot serve the best interests of Canadians. The Commission's decision is expected later this year. We strongly believe the existing system, which has proved its worth for over a century, is far superior to the risk of regulated competition.

But the challenge from Unitel and B.C. Rail/Lightel is only one of the turns in our path. More pressing is the challenge posed by a rapidly changing world and by the global competitive pressures being placed on ourselves and our customers. To ready ourselves, B.C. Tel has been transformed. It is a much different, a much stronger, more customer-driven organization.

In-depth consultation between management and our employees on the frontline led to a consensus that we hadn't turned the corner in terms of speed and customer service. We needed to be more innovative, more flexible, and above all, more responsive to customers. And that we had to create a far stronger, more efficient structure that would enable us to meet the challenges before us.

Senior management asked these questions: What are our distinctive excellences? What do we do particularly well – better than any other company?

The answer: we're good at creating and operating a telecommunications network; we're able to apply existing services to meet basic voice and data needs of our customers; and we're able to develop and apply advanced technology in selected market niches.

That was great for our first 100 years, but to remain the pre-eminent provider of telecommunications services, B.C. Tel will have to translate vision into action. And that will require fundamental change.

We are, therefore, committed to achieving five strategic objectives:

- eliminating unnecessary and redundant costs so that we can provide high value to our shareholders and customers;
- seeking customer-focused, imaginative solutions that will provide a greater share of our total revenues;
- encouraging innovative solutions and forming high-performance work teams;
- organizing around profitable, customer-focused business units and developing feedback systems to monitor our performance;
- continuing to focus efforts on investing to improve our competitiveness and increase shareholder value.

Our mission is simply this: "We will make it easy for people to exchange information – anywhere, anytime – by devising imaginative telecommunications solutions that are economic and exceed customer expectations."

#### *Making Connections*

Fulfilling our mission means not only paying attention to our customers, but building relationships with them and making it easy to do business with us. It means providing and supporting innovative solutions. Making and keeping our promises. And if we fall short, it means making recovery our first priority.

Innovative solutions are always possible when you search for them with partners such as the University of Victoria and the Greater Victoria Hospital Society. In an interactive broadband communications trial, B.C. Tel and those partners are breaking new ground in finding applications for training and distance education. We are discovering that broadband is more than a useful training tool; it is a cost effective means of connecting these institutions with their counterparts around the province.

As important as technology is, it alone cannot ensure success. We succeed because we are organized –

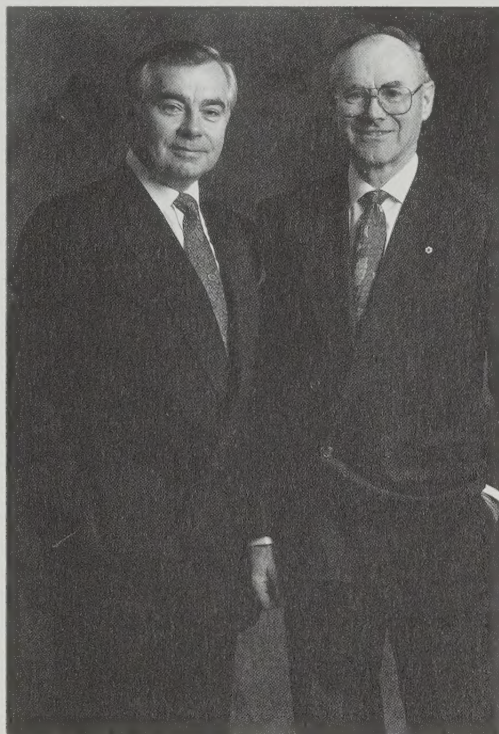
from research to planning, from information systems to employee involvement – to deliver the technological solutions customers want. We will succeed by taking risks and promoting new ideas; by encouraging teamwork, by respecting individual initiative; and above all, by putting our customers first.

One of the year's proudest achievements came from putting the customer first: supporting MacMillan Bloedel's move to its new headquarters at Cathedral Place. Our people worked closely with the customer's staff to switch all its telephone and data transfer facilities, and to replace the old systems with new and better ones. A job that should have taken five months was completed in three. And when MacMillan Bloedel's 450 employees reported to their new premises, their phones and computer terminals were up and running.

The MacMillan Bloedel project is an example of how B.C. Tel is able to provide superior service – superior as defined by the customer. That ability is a key competitive advantage in the 1990s. To capitalize on that advantage, B.C. Tel and Canada's other major telephone companies formed a new alliance, "Stentor: The Power of Telecommunications". It involves the formation of two jointly held companies – Stentor Resource Centre Inc. and Stentor Telecom Policy Inc. – and a revised mandate for Telecom Canada, now called Stentor Canadian Network

Management. This alliance will allow business customers to benefit from a level of excellence and expertise that none of the telephone companies could match alone.

A council of CEOs from the shareholder companies will provide long-term strategic direction for both Stentor Resource Centre and Stentor Telecom Policy.



Gordon MacFarlane, *Chairman* (right) and Brian Canfield, *President and Chief Executive Officer*.

Stentor Resource Centre will significantly enhance the market development process by consolidating a certain portion of the shareholder companies' engineering, research and development, and national and international marketing activities. It will also provide a new national service for major business customers, called Stentor Signature Service, offered by each telephone company with a personal commitment from the CEO.

The creation of Stentor Resource Centre is consistent with B.C. Tel's strategy of being truly customer responsive and cost competitive. Canada's major telephone companies believe that this new company will ensure consistent standards, reduce unnecessary costs, and accelerate the introduction of new products and services.

The second company, Stentor Telecom Policy, is headed, we are pleased to note, by B.C. Tel's vice-president of government relations, Jocelyne Côté-O'Hara. Stentor Telecom Policy will act as a government relations and policy advisory arm for the shareholder companies and their cellular affiliates.

Stentor Canadian Network Management continues to manage and monitor Canada's interprovincial networks and its North American and overseas interconnections. Revenue settlement arrangements for national and international services remain as part of its mandate.

Change is inevitable, necessary and invigorating. We have decided not only to face it forcefully, but initiate it. Our goal is to serve our customers even better and to push leadership even further in an atmosphere of trust and cooperation.

#### *Our Strength Within*

Within B.C. Tel, we look to our people to provide the strength to turn our vision into action, and to make the all-important connections with our customers. No other company could hope to assemble – nor could we hope to replace – the range of talent and experience that this Company possesses. We are accelerating efforts to seek out and develop those people who desire the opportunity to take responsibility and to grow with B.C. Tel.

Our change in strategic direction prompted some changes in duties and titles of our senior officers. Lynn Patterson is vice-president, business division; Roy Osing is vice-president, small business and consumer division; Fares Salloum is vice-president, emerging business; Bruce Hartwick, who remains president and chief executive officer of MPR Teltech Ltd., is vice-president, science and technology; Don Calder is vice-president, business planning; Leo Dooling is vice-president, finance and administration; Harold Ens is vice-president, telecommunications operations; Don Champion is vice-president, human resource development; Bob Johnston is vice-president, transition management; Dorothy Byrne is vice-president, legal and corporate affairs; Jocelyne Côté-O'Hara continues

as vice-president, government relations and Bob Alexander continues as vice-president on loan to the Victoria Commonwealth Games Society.

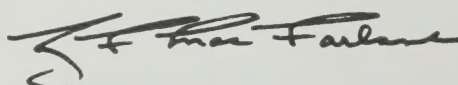
Our strength is our people, and so it is with regret that we report Bill McCourt's retirement as executive vice-president of telephone operations. Bill retired in October after nine years of loyal and valued service. Area general manager Don Haaheim and the general manager of Operations 95, George Holmes, also retired. They, too, will be missed.

We look ahead with enthusiasm born of our confidence in B.C. Tel's proven excellence as a telecommunications provider. We will pursue our chosen line of business for many years to come. In some ventures, the most sensible and profitable course will be to proceed on our own. In others, we will form partnerships that both facilitate market access and draw on the experience and expertise of the linkages.

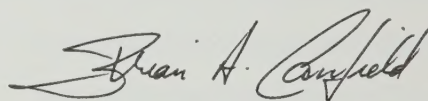
We have great faith in our future, founded ultimately on faith in our people, in our dedication to serving the customer, and in our desire to see our Company succeed.

By acting on our vision, we are making the right connections for a bright, prosperous future. We believe what you are about to read in this annual report documents that we are definitely on course.

On behalf of the Board,



Gordon F. MacFarlane  
*Chairman*



Brian A. Canfield  
*President and  
Chief Executive Officer*



## CONNECTIONS

Senior Canadian Network Management, responsible for managing and monitoring Canada's entire public and private telephone network and its North American interconnections. Following several years of international assignments, he returned to Canada to assume his current position.

Mr. MacFarlane has extensive telecommunications experience, having worked for Bell Canada, the Canadian Telephone Association, and the International Telecommunications Union. He has also worked for the Canadian government, and has been a member of the House of Commons.

Mr. MacFarlane is a member of the Board of Directors of the Canadian Telephone Association, and is a past president of the Canadian Telephone Association. He is also a member of the Canadian Telephone Association's Board of Directors, and is a past president of the Canadian Telephone Association's Board of Directors. He is also a member of the Canadian Telephone Association's Board of Directors, and is a past president of the Canadian Telephone Association's Board of Directors.

The change in strategic direction prompted some changes in duties and titles of our senior officers. Lynn Buchanan is vice president, business division; Roy Olson is vice president, small business and consumer; William Barry is senior vice president, engineering; Bruce Hartwick, who is now president of the executive office of MPR Telecommunications, is vice president, engineering and technology; Lou Gellman is vice president, finance; and David L. DeLong is vice president, human resources. Mr. DeLong has been president of the Canadian Telephone Association since 1987. Mr. DeLong is also a member of the Canadian Telephone Association's Board of Directors, and is a past president of the Canadian Telephone Association's Board of Directors. He is also a member of the Canadian Telephone Association's Board of Directors, and is a past president of the Canadian Telephone Association's Board of Directors.

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Chairman of the Board



Gordon E. MacFarlane  
Chairman



Brian A. Campbell  
President

**In a rapidly changing business environment, B.C. Tel forges strategic alliances, crafts new and existing technologies that answer customers' needs, and explores the frontiers of a new age of communications. We are easy to do business with: we care. We provide and support innovative, quality solutions. We make promises and always keep them. If we fall short of our strategy, recovery will be our number one priority.**

**On the site of Expo 86, B.C. Tel  
is a key player in a world-class  
urban development: Pacific**

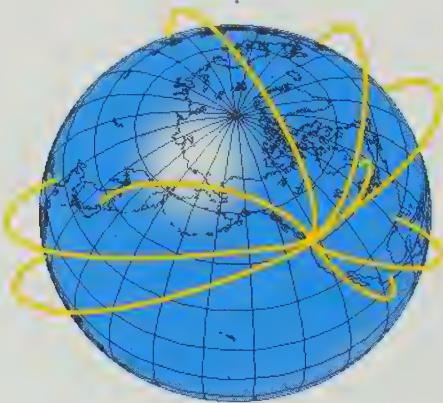
**Place. Concord Pacific's 82.5 hectare, \$2.5 billion  
planned community (1 million m<sup>2</sup> of commercial space,  
7,600 homes and 20 hectares of parks) will be served**



In a unique joint venture, B.C. Tel and Concord Pacific plan to market communications services to Pacific Place's thousands of residents and businesses. A wide spectrum of fibre-carried applications could include entertainment options, interactive video, security and medical monitoring, credit verification, high-speed data transfer and innovations not yet thought of.

*Northern Telecom's FiberWorld system will connect Pacific Place to the world of broadband telecommunications, making possible a community of 'smart' buildings whose occupants are always in touch. Through B.C. Cellular and B.C. Mobile, the Company is laying the electronic foundation for true wireless personal communications services throughout the site.*

**by a B.C. Tel-installed fibre  
optic infrastructure.**

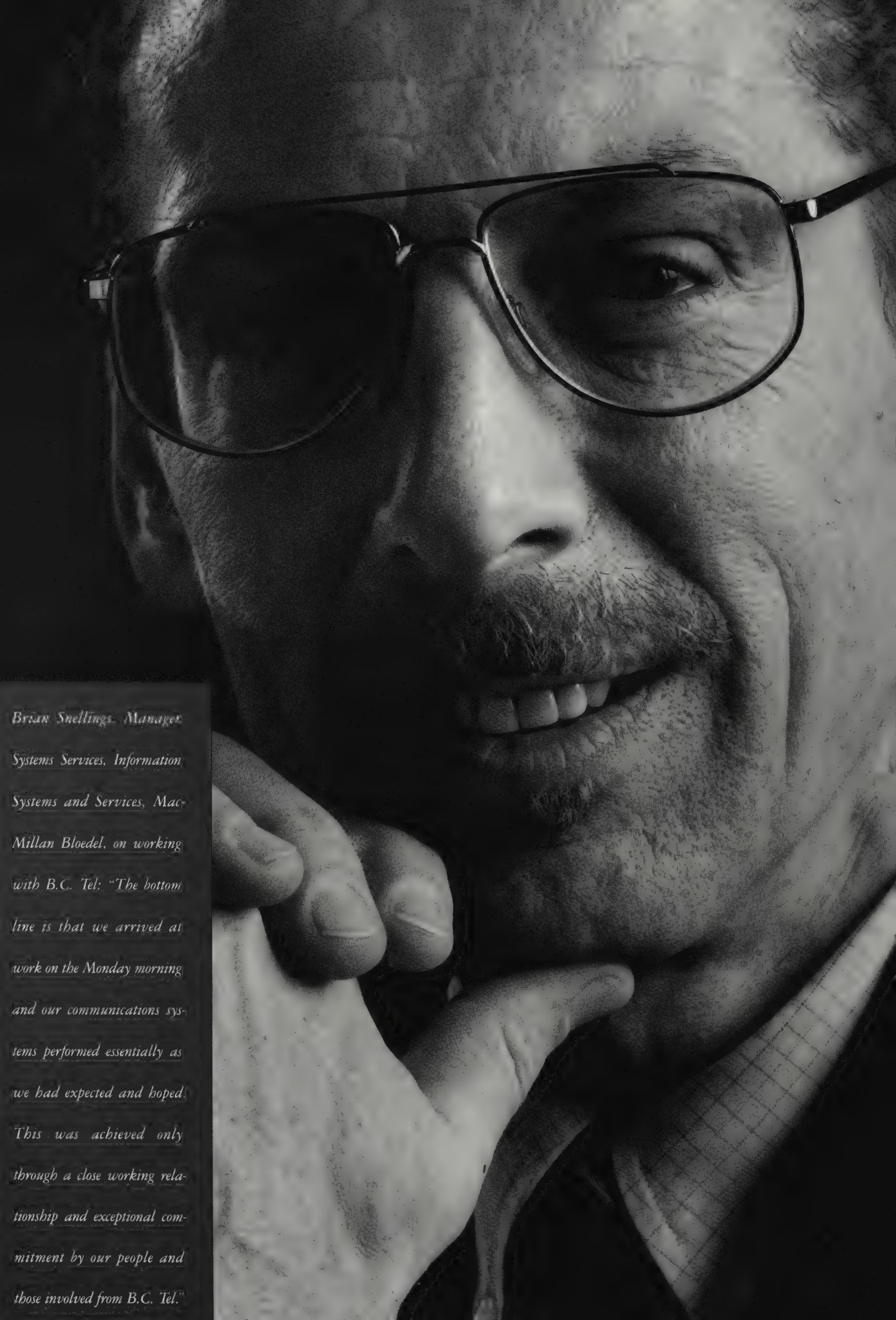




*Jon Markoulis, Vice-President*

*Concord Pacific, on his company's alliance with B.C. Tel:*

*"We have been working closely with B.C. Tel to ensure that our Pacific Place development has the most advanced communications infrastructure in North America. Our future residents will benefit from B.C. Tel's commitment to customer service. Together with B.C. Tel and Northern Telecom we are setting new standards for the homes of the future at Pacific Place."*



*Brian Snellings, Manager*

*Systems Services, Information*

*Systems and Services, Mac-*

*Millan Bloedel, on working*

*with B.C. Tel: "The bottom*

*line is that we arrived at*

*work on the Monday morning*

*and our communications sys-*

*tems performed essentially as*

*we had expected and hoped.*

*This was achieved only*

*through a close working rela-*

*tionship and exceptional com-*

*mitment by our people and*

*those involved from B.C. Tel."*

**When MacMillan Bloedel moved to a new building, B.C. Tel worked closely with the customer to transfer voice, fax and data links and to install new systems which required in excess of**

*Some 300 B.C. Tel employees contributed, working through a core team intermeshed with MacMillan Bloedel's communications staff. B.C. Tel's people put in an unparalleled effort, double shifts and working weekends, to serve the customer.*

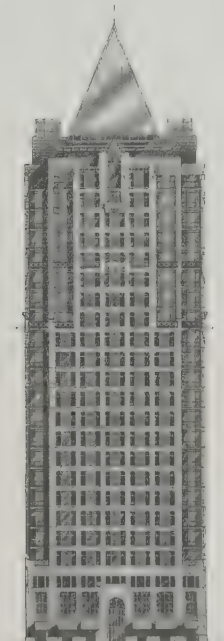
**one million feet of wire and exacting cable standards. A five-**



**month job was completed in just three to the customer's**

On June 3, MacMillan Bloedel's employees entered their new offices. The building was still under construction – but their phones worked, their computers were up and running, and people could do business as if they had just moved down the hall.

**complete satisfaction.**



Burnaby's leading-edge schools will equip today's children for the information-rich world of the 21st century, while creating a new information access point for an entire community. Students of all ages can go on-line to an exponentially expanding world of data bases, images and telecommunications links.

**Burnaby School District**

**is building two state-of-**



**the-art schools where elementary and secondary stu-**

**dents will be integrated with former students of a**

**school for the deaf. B.C. Tel is providing and install-**

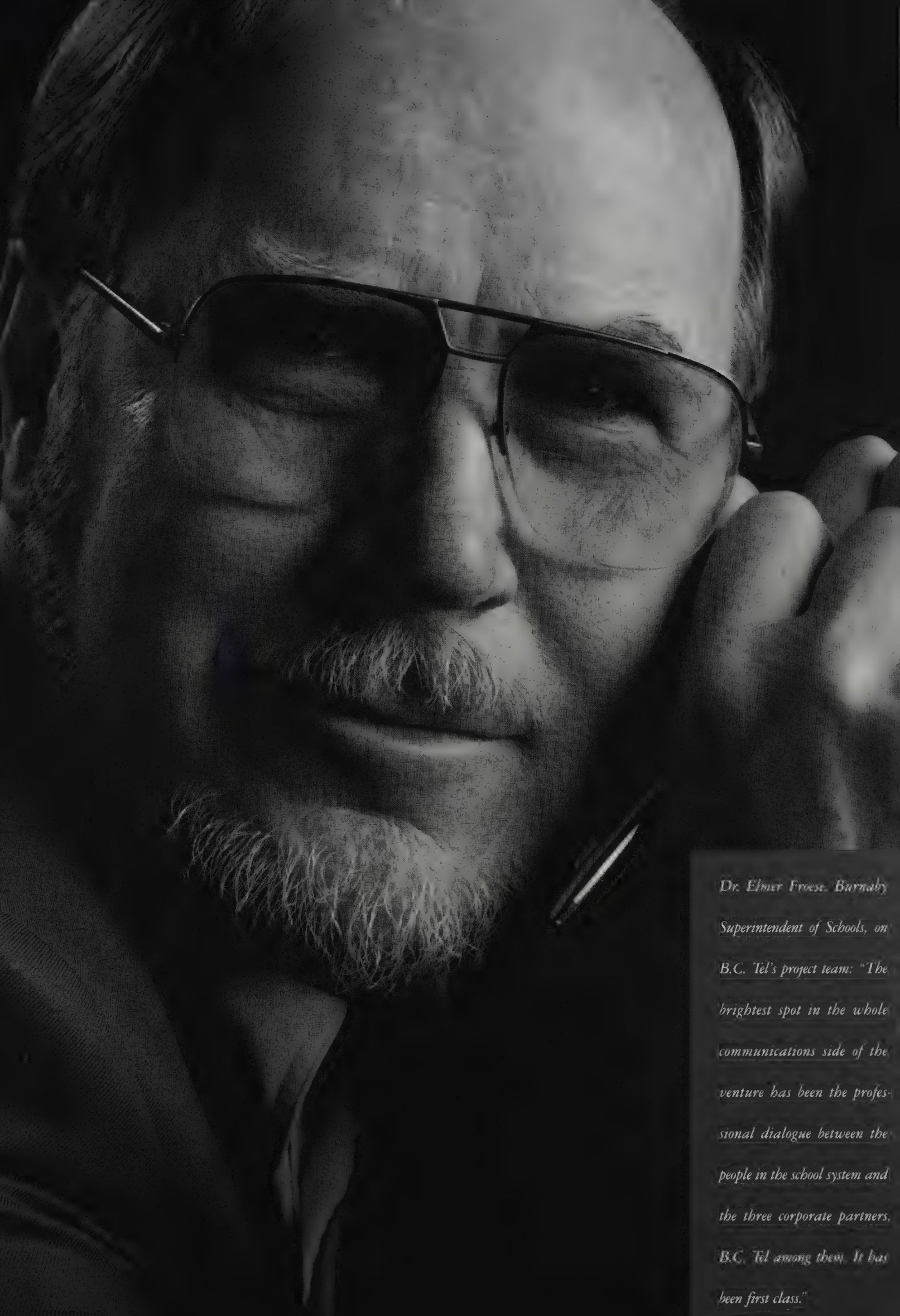
**ing a complete fibre optic information**

**management system – bringing a whole**

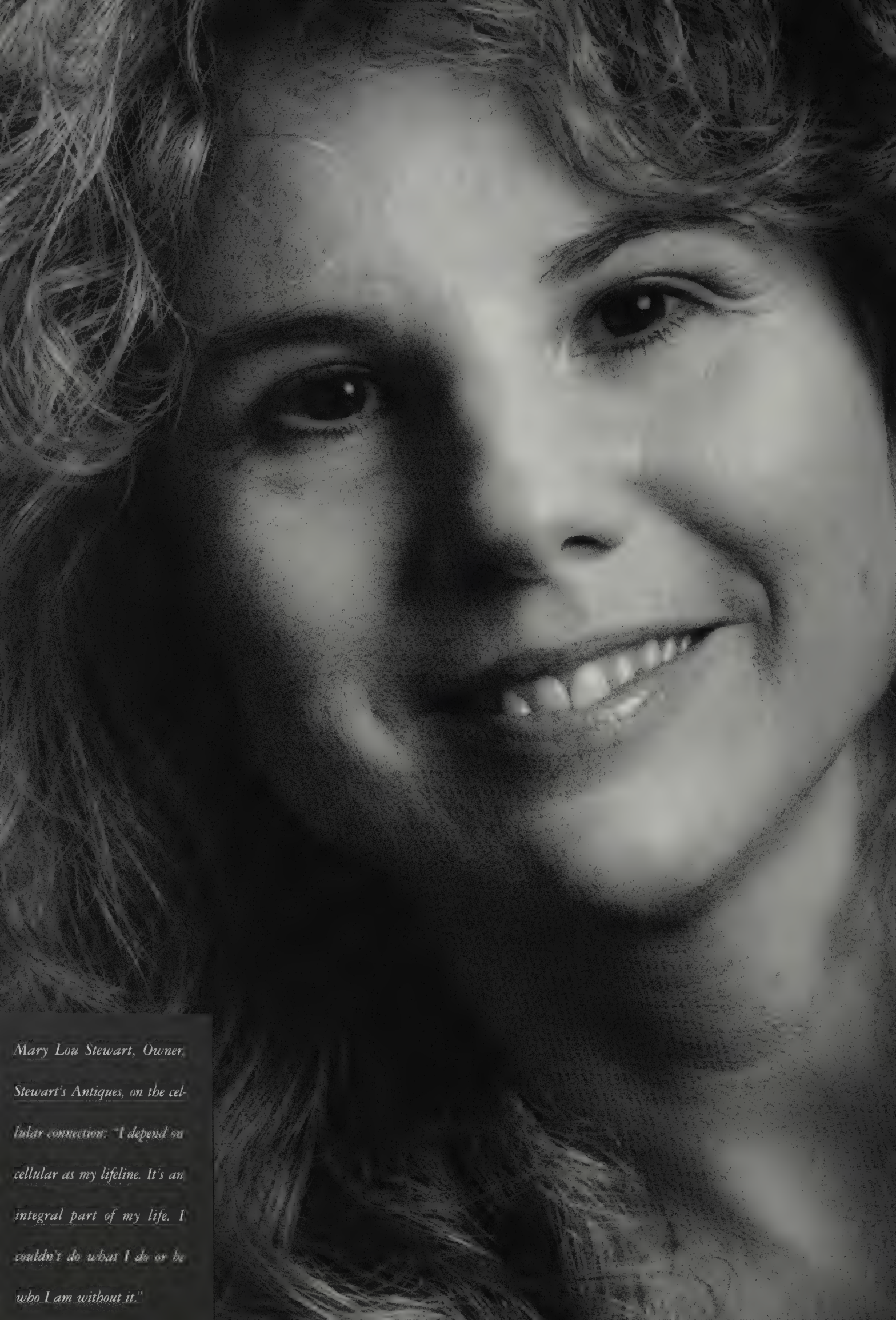
**world to the community's fingertips.**

*As project manager, B.C. Tel integrates its own resources with IBM computer systems and Dyna-Com leading-edge video technology – a three-way strategic relationship that positions the Company strongly in the rapid-growth emerging market for non-traditional telecommunications applications.*





*Dr. Elmer Froese, Burnaby Superintendent of Schools, on B.C. Tel's project team: "The brightest spot in the whole communications side of the venture has been the professional dialogue between the people in the school system and the three corporate partners, B.C. Tel among them. It has been first class."*



*Mary Lou Stewart, Owner,  
Stewart's Antiques, on the cel-  
lular connection: "I depend on  
cellular as my lifeline. It's an  
integral part of my life. I  
couldn't do what I do or be  
who I am without it."*

**Cellular is the dawn of  
wireless personal com-**

**munications. Digital cellular, electronic voice**

**messaging and alpha-numeric paging are com-**

**bining to form a world in which phones connect**

**people to people, wherever they happen to be.**

Go anywhere, call anytime phones support businesses and lifestyles that couldn't exist without wireless. By the year 2000, half of all working British Columbians are expected to be using wireless communications, in contact with the world whenever they want.

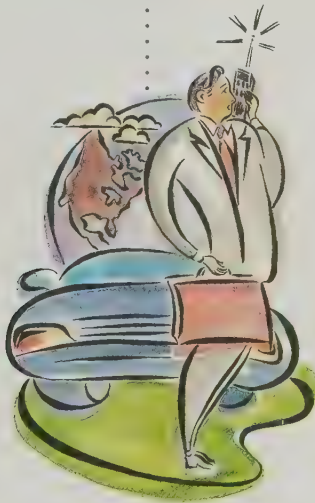
*In the business and personal lives of thousands of British Columbians, cellular's instant communication capability is now a fundamental mainstay. The wireless connection is an integral part of doing business and being in touch in the 90s.*



**The technology is com-**

**plex; the communication**

**is simple and easy.**



## BROADBAND TRIALS

*Broadband takes us deep into the information age. Distance is no barrier to a face-to-face connection. Information is there when it's needed. Provincial ministries and educational institutions are showing strong interest in the trials of broadband applications.*

**B.C. Tel, the Greater Victoria Hospital Society and the University of Victoria are testing switched broadband communications – voice, video and data all on**

**one circuit – in distance education and medical**

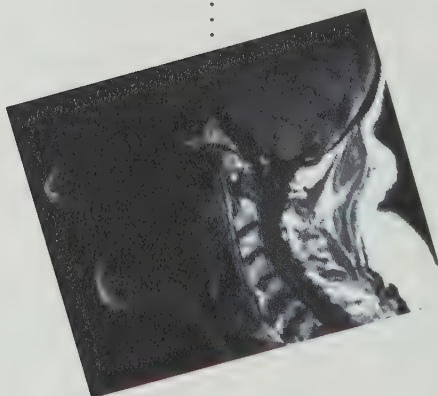
**training, including videoconferencing that will**

**allow medical staff in separate locations to com-**

**pare views on lab slides**

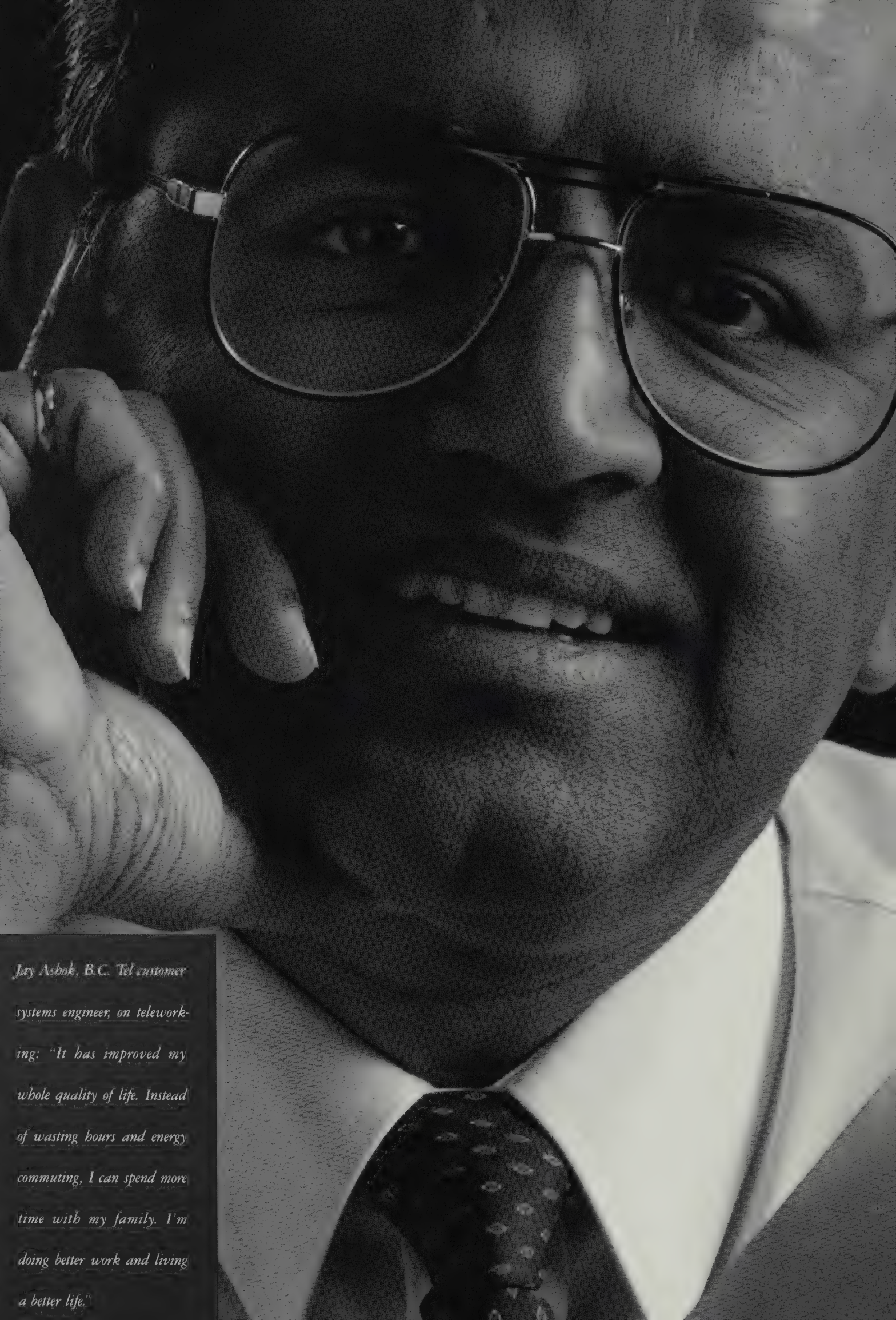
**and diagnostic images.**

Connecting MPR Teltech's designed hardware and software to off-the-shelf components, the trial team is developing new applications, defining and refining capabilities, and creating marketable services by matching technology to customer needs.





*Fergus Heywood, Manager of  
MIS, Greater Victoria Hospi-  
tal Society, on the working  
relationship with B.C. Tel:*  
*"It is a very congenial relation-  
ship. I don't really think of the  
B.C. Tel broadband group as  
an external organization. We  
are all part of the same team."*



*Jay Ashok, B.C. Tel customer  
systems engineer, on telework-  
ing: "It has improved my  
whole quality of life. Instead  
of wasting hours and energy  
commuting, I can spend more  
time with my family. I'm  
doing better work and living  
a better life."*

## TELEWORKING

**B.C. Tel and Bentall Development Inc. are conducting**

**Canada's first trial of remote office teleworking. At a satellite office in the Fraser Valley, 15 B.C. Tel**

**employees who faced round trip commutes of up**

Using telecommunications technology and systems – fax, modem, data transfer – B.C. Tel is supporting a new kind of work environment where work is brought to people.

**to 2½ hours now connect by voice and data links to B.C. Tel's downtown and headquarters offices.**

*Teleworking eliminates stress, reduces pollution, decreases employee fatigue and saves time lost in traffic jams and bus queues. It addresses two of the key issues facing our society in the 1990s: quality of life and quality of the environment.*



**Making connections. Satisfying customer needs is our first priority. We try new ideas and learn from mistakes. We act in support of our mutual commitments. We respect individual initiative in the achievement of shared goals. We are a team. We make things happen.**

## OPERATIONS REVIEW



The past year marked the 100th anniversary of service by B.C. Tel to British Columbia. The Company can proudly look back on a century of accomplishment, and forward to challenges and opportunities undreamed of when our first predecessor opened in 1880, to serve 45 customers.

The 1990s are an unexplored, rapidly evolving business environment. New technologies and applications, new allies and competitors, new customer needs and expectations, and new strategic relationships are reshaping the reality we face. Accordingly in 1991, B.C. Tel completely reorganized, becoming more flexible, more able to bring rapid, company-wide responses to challenges and opportunities, and – most important of all – more intensely customer-driven.

In the 1990s B.C. Tel's customers are less concerned with technology than with the services technology can deliver. For the customer, technology is the door through which a richer, wider world beckons. Our focus is on connecting the customer with that world.

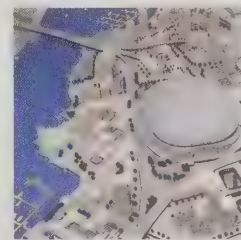
At B.C. Tel we are flattening the organization, empowering employees for enhanced customer responsiveness. Strategic customer relations and business planning are now higher priorities. Our new organization lets customers deal with B.C. Tel quickly and easily, and brings them into closer contact with specialized support groups to provide the services they need.

Our front line now includes: two core business units servicing consumers and business customers large and small; and the Emerging Business Unit, which seeks opportunities in enhanced services, emerging technologies and related ventures.

Through teamwork, all units connect to each other and to the company-wide support of telecommunications operations, business planning, science and technology, legal and corporate affairs, finance and administration, transition management and human resource development. B.C. Tel's success in adapting to a new operating environment is demonstrated in each project we undertake.

#### *Concord Pacific*

On Vancouver's former Expo 86 site, Concord Pacific Developments Ltd. is building Pacific Place, an 82.5-hectare, \$2.5 billion mix of residential, commercial and recreational space. The planned community will include almost one million square metres of commercial space, 7,600 homes, 20 hectares of parks and recreational areas, and a three-kilometre walkway.



*Building North America's first fully fibre optic community.*

B.C. Tel has formed a strategic relationship with Concord Pacific, to create a leading-edge fibre optic infrastructure to serve Pacific Place's eventual 15,000 residents and the thousands of people who will work in its commercial space.

B.C. Tel is designing and installing a network, based on Northern Telecom's FiberWorld system, for 'smart buildings' and even 'smart floors' of office towers. The FiberWorld system can connect customers to a broad range of services today, with capacity for future innovations.

B.C. Tel has negotiated and signed an initial site application contract with the developer, and has formed a unique joint-venture with Concord Pacific to

develop and market new communications services for the site. Potentially it could include a wide spectrum of fibre-carried applications such as entertainment options, interactive video, home banking, security and medical monitoring. Business services could range from credit verification to telemarketing, and from high-speed data transfer to integrated mainframe access.

Through B.C. Cellular and B.C. Mobile, the Company is also positioning for a deployment of truly wireless personal communications services throughout the site.

#### *MacMillan Bloedel Limited*

In the spring of 1991, MacMillan Bloedel Limited moved its corporate headquarters to a new office building in downtown Vancouver. In competitive bidding, which featured exacting customized cabling standards and an extremely short preparation period, B.C. Tel won the contract to move the forest company's data transmission and telephone facilities.

A company-wide effort that touched some 300 B.C. Tel employees focused on a core project team that meshed with the customer's own technicians and managers. B.C. Tel's people overcame a great number of obstacles, from scheduling conflicts to

difficulties in drilling customized risers through the earthquake-proof building's stressed-cable concrete floors. But B.C. Tel's employees, working double shifts and weekends, completed in three months a complex job that would ordinarily have taken five.

#### *Burnaby 2000*

A unique vision conceived by Burnaby School District has put B.C. Tel in the vanguard of fibre-based educational hardware and software, and into a strategic relationship with IBM Canada Ltd. and DynaCom Inc., a U.S.-based world leader in video delivery systems for educational applications.



*Preparing children for the information-rich world of the 21st century.*

B.C. Tel is providing and installing a complete fibre optic system, including IBM data processing and DynaCom video equipment, throughout two new schools. The system offers teachers multiple resources for managing information, and for developing and delivering lessons. To meet the needs of deaf students (formerly educated at a residential school for the deaf) in an integrated school, the technology supports on-screen messaging via alpha-numeric keyboards, and provides a school-wide audio / video public address system.

The school board hopes the new system, now being tested at another high school, will be a technological blueprint for all district schools, to enhance the ways teachers teach and students learn. The board also sees the fibre optic connection potentially offering information access for alumni, adult education students, and the community as a whole.

The project has provided useful technical and management lessons which, along with the strategic linkages with IBM and DynaCom, strengthen B.C. Tel's position in the rapidly emerging, non-traditional market for telecommunications services.

#### *Satellite Office Trial*

In partnership with Bentall Development Inc., B.C. Tel has opened Canada's first satellite teleworking office, in a ten-month trial launched in October 1991.

The 15 B.C. Tel employees who now report to work at an office building provided by Bentall in suburban Langley formerly commuted up to 2½ hours to their headquarters or downtown offices. The trial is expected to result in improved morale and increased productivity. It has attracted attention from public

and private sector organizations in British Columbia. Vancouver's Mayor, Gordon Campbell, has praised B.C. Tel and Bentall Development for recognizing that "quality of life is a vital ingredient in our recipe for success in the future. This is one small step, but I think it is a milestone step."



*Supporting a new kind of environment where work is brought to the people.*

Bentall is now considering potential commercial applications. R.G. Bentall, Chairman of Bentall Development, comments: "Bentall is committed to advancing new ideas which improve the workplace. Teleworking is one such initiative. We have enjoyed a long-standing, mutually rewarding corporate relationship with B.C. Tel, and we anticipate that teleworking will unfold a new niche in the commercial real estate market."

*Victoria Broadband Trials*  
B.C. Tel is conducting interactive broadband communications trials with Victoria General Hospital, Royal Jubilee Hospital and the University of Victoria which provide these sites with distance education and training capabilities. Applications vary from teleconferencing and train-

ing seminars, to video imaging and transmission of microscopic tissue slides for simultaneous observation.

With the potential for transmission of various types of diagnostic images, this technology could eventually allow medical staff in remote areas to confer with colleagues in other parts of the province on matters requiring additional consultation.

Since June 1991, the trials have improved communications within the Greater Victoria Hospital Society. Provincial ministries, and other institutions concerned with distance education, have expressed interest in the trials. The video trials are enriching B.C. Tel's understanding of the potentials and the limitations inherent in present technology.

B.C. Tel's working relationship with the hospital society and university has resulted in a strong team spirit among the project group. Kate Seaborne, Manager of Distance Education Services for the University of Victoria, says: "The relationship has been great; it's been fun. B.C. Tel and MPR have made us feel that we are a full partner in the process; we are really impressed by that."

*B.C. Cellular Limited*

In 1991, using innovative marketing to achieve above-average growth and the highest penetration rate in the country, B.C. Cellular remained *the only* profitable cellular network in Canada.

B.C. Cellular expanded by 32 new cell sites, using the high-capacity SuperNode switch, and joined with US West Cellular to create uninterrupted cellular coverage from Whistler, B.C., to Seattle, WA. In 1992, new technological developments will link all Canadian cellular territories, and by 1993 the connections are anticipated to cover North America. In 1991, B.C. Cellular also entered two key niche markets: public phones on the B.C. Ferry Corporation fleet, and emergency phones for operators of B.C. Transit wheelchair buses.



*Entering new niche markets for B.C. Cellular.*

B.C. Cellular's existing services are the earliest stage of the personal communications era, in which digital wireless technology will connect customers anytime, anywhere. Fully digital cellular, applying digital cordless and microcellular systems, will open the door to true personal communications before the end of the decade, when an estimated 50 percent of British Columbia's working population will be using wireless services.

*CRTC Hearings on  
Bid for Long-Distance  
Competitive Entry*

From February through July of 1991, the Canadian Radio-television and Telecommunications Commission held 53 days of hearings into an application by Unitel Communications Inc. to provide long-distance telecommunications service to Canadians.

B.C. Tel, along with other telephone companies, government agencies and public interest groups, opposed the application on the grounds that the public interest would not be well served.

Unitel does not seek open competition for long-distance service. Instead, it wishes a regulated market share allocation in large urban markets, with a guaranteed price advantage over the telephone companies.

Open competition would reduce costs for some, but would mean increased costs for most subscribers. In the United States, free-market competition lowered long-distance rates, but raised local rates by an average of 44 percent.



*Continuing to serve the interests of  
Canadians into our second century.*

B.C. Tel is in favour of genuine competition. The Company is not afraid to meet competitors on a fair footing, which would require competitors to serve Canadians wherever they live, to contribute equally toward subsidizing local rates, and to operate under the same regulations governing prices, service approvals and the introduction of new technology.

The CRTC is expected to hand down a decision on the applications of Unitel and B.C. Rail / Lightel in the spring or summer of 1992.

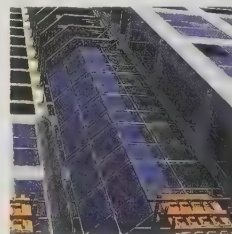
*Stentor Alliance*

On January 29, 1992, B.C. Tel joined with Canada's other major telephone companies to announce the restructuring of a new alliance among Canada's largest telephone companies.

Two new jointly-held companies, based in Ottawa, were also created: Stentor Telecom Policy Inc. will act as a government relations and policy advisor to the associated companies and their cellular affiliates; Stentor Resource Centre Inc. will consolidate a certain portion of engineering, research and

development, and national and international marketing for the alliance members. Stentor Resource Centre Inc. will also provide Stentor Signature Service, a new national service that will coordinate account planning, sales and services for major business customers.

Telecom Canada was renamed Stentor Canadian Network Management. The restructured company will continue to manage and monitor Canada's inter-provincial networks and inter-connections to North America and overseas.



*Completing major projects for  
B.C. Tel's large customers.*

*Business Division*

B.C. Tel's Business Division recorded significant achievements in 1991:

- The provincial government business operations group installed a private fibre optic network linking most provincial government buildings in Victoria, and met the urgent need of the Ministry of Health by installing a Meridian private automatic branch exchange in only six weeks from contract award to full operation.

□ The market and product development group filed for CRTC approval of a restructuring of Wide Area Telephone Service and 800 services to increase the value of these services to customers; launched the Advantage Canada long-distance discount plan, extended and improved Advantage US; and filed a proposal with the CRTC for Advantage Overseas. The group continued to reduce telecommunications costs for large users of competitive network services, which involved the restructuring of rates. A project was initiated to provide detailed billing options information to certain business customers.

□ In addition to significant projects like the MacMillan Bloedel move, the major accounts group implemented First City Trust Company's customer-owned, national private network, the largest ever handled by B.C. Tel.

□ The business test and repair group developed an on-line private branch exchange surveillance system which can be tailored to customers' individual security needs and can pro-actively monitor customer networks.

□ The project management group coordinated implementation of a five-hub dialing plan for Finning Ltd.'s 24 operational sites in Alberta and British Columbia.

#### *Small Business and Consumer Division*

B.C. Tel became the first telephone company in Canada to create a province-wide electronic linkage of service teams, accessed by a common telephone number, to service small business and residential customers. Incoming calls can be routed to an available representative anywhere in the province, resulting in greater operating efficiencies and improved customer service.



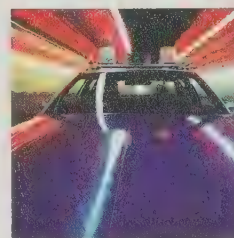
*Providing improved service to small business and residential customers.*

Plans are being made to upgrade all party-line service in British Columbia to single-line service over the next decade. Scheduled for implementation in 1992 is a new automated alternate billing system which allows customers to place collect and third-party calls without operator assistance. These and other initiatives are part of an aggressive effort to identify and service strategic market segments, so as to generate additional revenue and enhance our competitive position.

#### *Emerging Business Division*

B.C. Cellular developed an internal quality program that began as a 'grassroots' initiative among employees to increase their involvement and productivity. In 1991, B.C. Cellular launched the Customer Care program which pro-actively locates problems with cellular phones and dispatches technicians to solve them.

3S Systems Support Services, besides assuming responsibility for service to all data terminal equipment within B.C. Tel, won major contracts to service First City Trust's data communications network equipment throughout Canada and Greater Vancouver's emergency 9-1-1 system, and to subcontract repair services to IBM and Roland DG Canada Inc.



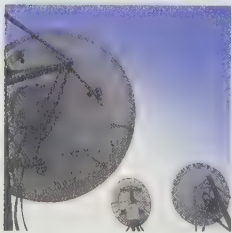
*Servicing Greater Vancouver's emergency 9-1-1 system.*

B.C. Mobile Ltd. acquired and integrated the former British Columbia operations of National Pagette, and assisted customers in developing innovative uses for their alpha-numeric pagers.

### *Science and Technology*

B.C. Tel, through its subsidiary North-west Telephone Company, has formed a company with ISM Information Systems Management Corp. (formerly Westbridge Computer Corporation) to create ISM Information Systems Management (B.C.) Corporation, or ISM-BC, a company that handles computing and communications systems needs of major corporations.

North-west Telephone Company owns 51 percent of ISM-BC, and ISM Information Systems Management Corp. – a leading information systems outsource firm – holds 49 percent. Many of the employees in B.C. Tel's former *iis* division have transferred to the joint venture. B.C. Tel and IBM Canada Ltd. will market the company's services.



*Exporting new satellite technology.*

MPR Teltech signed a \$9 million contract with South Korea's Electronics and Telecommunications Research Institute. Korean engineers will be working with MPR Teltech's staff in Burnaby until 1993, developing a new

Very Small Aperture Terminal (VSAT) which will be produced by Samsung Electronics, Goldstar Information and Communications and Hyundai Industrial Electronics for South Korea's KoreaSat satellite project. The contract has also led to a master development agreement providing for future joint projects between MPR Teltech and South Korea, and a research and development memorandum of understanding with Korea Telecom.

### *iis*

In systems development, *iis* brought on-line a new Materials Management Information System. The group also developed faster and more flexible point-of-sale equipment for customer service staff, a long-distance analysis system, enhancements to call management services, and interfaces to allow customers controlled access to B.C. Tel's network and operational control systems.

The *iis* group played a key role in the proposed redesign of the Wide Area Telephone Services and 800 services and the development of a new graphic user interface for customer service representatives, and prepared the B.C. Tel billing architecture for implementation of the National Summary Billing (NSB) system that the Company is developing for Stentor Canadian Network Management, previously Telecom Canada.

### *Business Planning*

The Business Planning group is a key strategic player in many of the projects highlighted in this report, and was instrumental in tests of ISDN (Integrated Services Digital Network) by the Open Learning Agency (OLA) and the Vancouver School Board. B.C. Tel and MPR Teltech are using ISDN and multi-media workstations to link four adult learning centres in Vancouver in a pilot project in distance education.

ISDN combines digital signals with traditional copper wire to greatly increase the amount of information that can be carried simultaneously. The OLA trials are useful in preparing B.C. Tel for commercial introduction of ISDN service, which could be in operation in all of the Company's major service centres by the end of 1993.

### *Telecommunications Operations*

Greater teamwork and operational efficiencies within this division are resulting from B.C. Tel's structural reorganization. In 1991, Telecommunications Operations assisted the B.C. Tel-Telelobe Canada joint venture to provide conduit structure and engineering support for two fibre optic cable crossings to Vancouver Island. The group also installed a fibre optic linkage to the United States border to carry AT&T cross-border traffic.

### *Environment*

The teleworking trial is providing a template for other business on how telecommunications technology can reduce commuter traffic and pollution by bringing work to the people.



*Taking strong initiatives on environmental issues.*

Other environmental efforts include working with Dominion Directory Co. Ltd., Ronalds Printing (a division of Quebecor Inc.), MacMillan Bloedel and the Newstech Recycling Limited Partnership to help create a closed-loop system for telephone directories. Switching to vegetable-based inks and water soluble binding glue will make it possible

for used phone books to be included in municipal recycling programs. B.C. Tel is also defining a method for auditing suppliers to ensure their compliance with the Company's environmental policy.

Marking its 100th anniversary, B.C. Tel has donated a 49-hectare stretch of wetlands around Dale Lake in the Cariboo to the Nature Trust of British Columbia, to be preserved and managed as migratory bird habitat.

In a review of case studies, Canada's Department of Industry, Science and Technology has singled out B.C. Tel's environmental performance as an effective example of decentralized decision-making and leadership in dealing with environmental issues.

### *Telephone Employees' Community Fund*

For the second consecutive year, the Telephone Employees' Community Fund campaign raised over \$1.1 million, confirming TECF's position as the most successful employee trust fund in the province. Children's Hospital was granted over \$275,000 from the fund, and more than 500 other agencies across British Columbia received donations.

### *Telephone Pioneers of America*

The more than 8,000 British Columbia members of the Telephone Pioneers of America celebrated the organization's eightieth birthday in 1991. The Pioneers, as always, were active contributors to the community. A \$30,000 wheelchair-accessible van was donated to the British Columbia Paraplegic Association. As well, the Pioneers built sidewalks, a gazebo and a wheelchair-accessible rose garden at Victoria's Glengarry Hospital, and – with B.C. Tel and TECF – installed an 'assistive' telephone booth at the George Pearson Centre in Vancouver.

**Transformed by a new operating structure, B.C. Tel will more effectively target key markets by bringing together all our human and technological resources to provide enhanced customer service. Our reorganization positions us to fulfil our mission: making it easier for people to exchange information – anywhere, anytime.**

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Overview

B.C. Tel accelerated the process of corporate strategic renewal in 1991 to reposition the Company for the 1990's. As a part of that repositioning, the Company strengthened its long-term commitment to customers as the focus of the new corporate mission:

We make it easy for people to exchange information – anywhere, anytime – by devising imaginative telecommunications solutions that are economic and exceed customer expectations.

B.C. Tel's primary financial objective is to increase shareholder value over time. Management's focus is on the development and implementation of business strategies which will earn a return on shareholders' equity commensurate with the Company's business and financial risks. Consistent growth in earnings and dividends continues to be a key financial goal.

Return on Ordinary Equity (%)

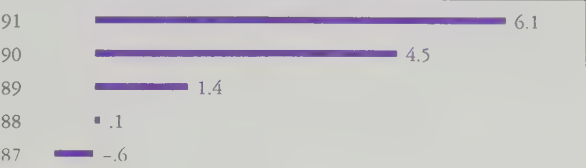


For 1991, net earnings increased 4.0% to \$201.0 million. On a per share basis, earnings increased to \$1.78 from \$1.72 in 1990. Earnings have increased consistently each year since 1984.

The earnings improvement was achieved in a climate of slower provincial economic activity and lower rates of revenue growth in 1991 compared to recent years. Despite these adverse external factors, the Company was able to introduce further long distance rate reductions in late 1990 and in 1991 (including new discount services which strengthened B.C. Tel's competitive position). Operating costs were reduced to the lowest possible level while maintaining a high standard of service to customers. The success of the Company's efforts was evident in an increased operating margin – from 24.5 % in 1990 to 25.3 % in 1991. B.C. Cellular's contribution to earnings increased in 1991; its revenues increased 40 % to

about \$60 million. The only negative factors were increases in debt service charges and in the effective income tax rate.

B.C. Cellular Net Earnings (\$ Millions)



For the fifth consecutive year, the Company increased its ordinary dividend, maintaining the payout ratio at just over 60 %. The quarterly rate was increased by \$.02 per ordinary share to \$.28 per share in the second quarter of 1991. The Company intends to review the dividend rate annually in relation to prospective earnings and its financial position.

Dividends Declared Per Ordinary Share (\$)



The Company operates in a single industry segment – telecommunications services – and reports financial results on a consolidated basis. The following sections discuss the consolidated operating results and financial position and also include references to specific subsidiaries where that information or data is significant.

Results of Operations

Operating Revenues

(\$ Millions)	1991	1990	Increase	% Change
	\$ 1,945.2	\$ 1,852.6	\$ 92.6	5.0 %
Local service	\$ 705.0	\$ 646.1	\$ 58.9	9.1 %

About 80 % of local service revenues are earned by providing network access services and renting terminal equipment to business and residential customers. This component accounted for \$31.7 million of the increase in the local service category and resulted primarily from a 4.0 % growth in customer access lines. Growth in residence lines of 48,000 or 3.6 % was attributable to strong international and inter-provincial migration to B.C. Business lines grew by 28,000, or 4.8 %, with over 40 % of regular business line gain due to the increased use of fax. New network services, including custom calling features and Call Management Services, also contributed to the growth in network access and terminal rental revenues.

Customer Access Lines in Service (Thousands)



Another significant component of the growth in local service revenues was an increase of about \$20 million generated by B.C. Cellular and B.C. Mobile. This increase was primarily due to a 40 % growth rate in the number of B.C. Cellular subscribers to over 62,000 at the end of 1991. Average monthly revenue from each cellular subscriber declined slightly to \$95 from \$98 in 1990.

(\$ Millions)	1991	1990	Increase	% Change
Long distance service	\$ 920.1	\$ 900.1	\$ 20.0	2.2 %

Message toll (voice) service revenues, the major component of the long distance category, increased by \$32.4 million in 1991. This growth resulted from a 10.4 % increase in long distance messages partially

offset by a 5.8 % decrease in the average revenue per message. Higher message volumes reflected overall growth in the provincial economy, stimulation from long distance rate reductions in late 1990 and the introduction of lower priced message toll services such as Advantage Canada and Advantage U.S. The decrease in the average revenue per message reflected both the rate reductions and the impact of the new, lower priced services mentioned above. The loss of revenue to long distance resellers reduced the growth in message toll service revenues in 1991.

Long Distance Messages (Millions)



The increase in message toll service revenues was partially offset by a decrease of \$16.3 million in WATS/800 service revenues due to 5 % to 18 % rate reductions in late 1990 and the migration of some WATS customers to the Advantage Canada service.

(\$ Millions)	1991	1990	Increase	% Change
Directory advertising, equipment sales and other revenues, net	\$ 320.1	\$ 306.4	\$ 13.7	4.5 %

Directory advertising and sales revenues increased \$12.5 million in 1991 due to continuing growth in demand for Yellow Page and special directory listings and because of an increase in rates for most directory services. Revenues from the Company's subsidiaries (excluding B.C. Cellular and B.C. Mobile) are included in this category and increased \$11.4 million in 1991. Higher revenues from Canadian Telephones & Supplies, primarily due to an increase in billing rates, and from MPR Teltech, reflecting higher third party

sales, accounted for most of the increase. Partially offsetting these positive factors was a \$10.1 million increase in uncollectible revenues reflecting general economic conditions in the province and, in particular, more business and personal bankruptcies.

*B.C. Tel expects the demand for telecommunications products and services to continue to grow in 1992 and beyond. The economic prospects for the province are favourable with population growth continuing to exceed the national average. Growth in customer access lines and long distance messages in 1992 is expected to be near 1991 levels. Average revenue per message should stabilize in 1992 as the impact of rate reductions diminishes. Revenue from subsidiary operations is expected to provide an increasing share of total operating revenues in 1992 and in the next few years.*

Operating Expenses				
(\$ Millions)	1991	1990	Increase	% Change
	<u>\$ 1,453.3</u>	<u>\$ 1,398.5</u>	<u>\$ 54.8</u>	<u>3.9%</u>
Operations	<u>\$ 1,157.6</u>	<u>\$ 1,095.0</u>	<u>\$ 62.6</u>	<u>5.7%</u>

Employee-related costs, including wages, salaries and benefits, comprise 70 % of operations expenses and increased \$61.9 million in 1991. The most significant factor underlying this increase was a general wage increase of 6 % for unionized employees, effective January 1, 1991. This increase in employee-related costs reflected the addition of employees in expanding subsidiaries such as B.C. Cellular and MPR Teltech, and the redeployment of employees in other areas of the Company to customer service or customer support positions.

During 1991, the Company restructured its operations, in part directed at improving operating effectiveness and customer service. This was one of many actions taken in 1991 that allowed the Company to respond to an expanding customer base and associated higher work volumes.

The Company achieved a productivity gain of about 5.5 % in 1991, based on the growth in customer access lines per related employee.

Increases in non-labour expense components included directory production and commission expenses as a result of higher directory revenues, and property taxes resulting from assessment increases and additional properties.

(\$ Millions)	1991	1990	(Decrease)	% Change
Depreciation	<u>\$ 295.7</u>	<u>\$ 303.5</u>	<u>\$ (7.8)</u>	<u>(2.6%)</u>

The decrease in depreciation expense was due to a lower composite depreciation rate partially offset by continued expansion of the Company's asset base. The Company revised its accounting treatment for certain capital leases, reclassifying them as operating leases in 1991. This change contributed to a composite depreciation rate which decreased from 6.68 % in 1990 to 6.14 % in 1991 and effectively reduced depreciation expense by \$26.0 million. The higher depreciable asset base in 1991 caused an offsetting depreciation expense increase of \$18.2 million.

*B.C. Tel and the Telecommunication Workers Union are currently negotiating a new collective agreement. The impact of any new agreement on the level of operating expenses in 1992 and beyond is unknown at this time. Costs associated with new business ventures and higher subsidiaries' expenses related to higher revenues are expected to increase 1992 operating expenses. However, new process improvement initiatives are expected to provide significant cost reductions in 1992.*

Debt Service Costs				
(\$ Millions)	1991	1990	Increase	% Change
	<u>\$ 144.8</u>	<u>\$ 138.2</u>	<u>\$ 6.6</u>	<u>4.8%</u>

Interest on long-term debt increased by \$15.9 million in 1991, reflecting an issue of debentures in June 1991 and the full-year impact of two series of debentures issued during 1990. Certain issues of first mortgage bonds matured in 1991, partially offsetting the impact of the debenture issues. Other interest expense decreased by \$9.3 million due to lower short-term rates and reduced borrowing levels.

<i>Income Taxes</i>				
<i>(\$ Millions)</i>	1991	1990	<i>Increase</i>	<i>% Change</i>
	\$ 154.9	\$ 134.8	\$ 20.1	14.9%

Of the increase in this category, \$8.5 million was the result of an increase in the effective income tax rate from 41.1% in 1990 to 43.5 % in 1991. The principal contributor to the higher rate was an increase of 1% in the corporate provincial income tax rate effective January 1, 1991. The remainder of the increase reflects an increase in pre-tax earnings.

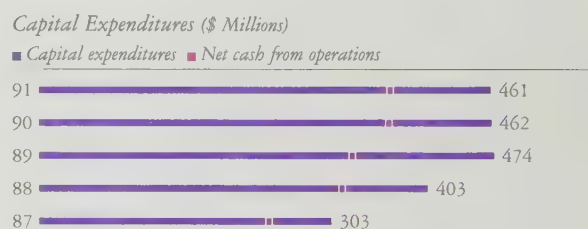
### Liquidity and Capital Resources

B.C. Tel's primary requirement for funds is for capital expenditures to meet the demand for telecommunications services in the province. These expenditures enable the Company to satisfy the growth in demand for basic services, introduce new products and services, increase the operating efficiency and productivity of the network and respond to competitive challenges.

#### Capital Expenditures

Consolidated capital expenditures in 1991 totalled \$460.7 million compared to \$461.6 million in 1990. In the provision of telephone service, expenditures in 1991 increased to meet forecast growth for both local and toll network facilities. This increase was offset by reduced spending for digital switching equipment as a number of planned, small central office conversions from electromechanical to digital were deferred. In the subsidiaries, B.C. Cellular's expenditures were lower in 1991, mainly reflecting a limited geographic expansion of its network following a major expansion in 1990. B.C. Mobile's purchase of National Pagette's B.C. paging operations from BCE Mobile is also included in 1991 expenditures. National Pagette was the largest paging company in the province and added approximately 20,000 customers and 35,000 pagers to B.C. Mobile's business. The acquisition is in keeping with B.C. Tel's intention to partner with BCE Mobile in the provision of wireless services.

Since planning, engineering, manufacturing and installing telecommunications equipment is often a lengthy process, substantial purchase commitments have been made in connection with the planned 1992 construction program, and to a lesser extent, for subsequent years. The Company estimates that consolidated capital expenditures will amount to \$480 million in 1992 with planned annual expenditures in the 1993-1997 period in the range of \$450 to \$500 million. The largest portion of these expenditures is for primary telephone service – programs that respond to the growth in demand for existing telecommunications services. Expenditures in this category approximate \$300 million in 1992 and in each of the subsequent five years, and include the installation of fibre optic cable throughout the Concord Pacific development in Vancouver beginning in 1992. System modernization is another significant expenditure category with projected spending of \$45 million in 1992, and annual amounts of between \$80 and \$100 million in 1994-1997 reflecting significant installations of digital switches in those years. The replacement of electromechanical and analog switching systems with digital systems will increase the percentage of customer lines served by digital switches from the current 77% to 96% in 1997.



*Internally-Generated Funds*

The ability to generate cash from operations continued to be one of B.C. Tel’s financial strengths in 1991. Net cash from operations (net earnings adjusted for non-cash items such as depreciation, less dividends to shareholders) was \$358.9 million or 77.9% of capital expenditures in 1991 (79.2% in 1990). The Company anticipates that a similar percentage of capital expenditures will be financed internally in 1992.

*Financing Activities*

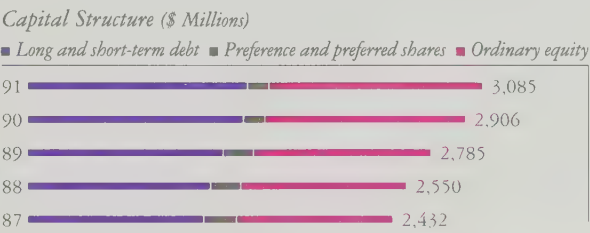
B.C. Tel raised \$56.1 million of ordinary equity capital in 1991, primarily from the issue of 2.8 million ordinary shares through the Dividend Reinvestment and Share Purchase Plan. In June 1991, the Company issued \$175 million of 10.65 % Debentures Series 3 maturing in 2021. This was the largest, single issue of long-term debt in the Company’s history. Short-term debt (due for redemption within one year) in the form of promissory notes and bank loans, increased by only \$2.3 million in 1991 and totalled \$67.1 million at year end. The Company had aggregate lines of credit amounting to \$294.2 million at December 31, 1991. Redemptions of long-term debt and preferred shares totalled \$166.5 million in 1991.

A continuing external source of funds is expected from the issue of shares under the Dividend Reinvestment and Share Purchase Plan in 1992 and beyond.

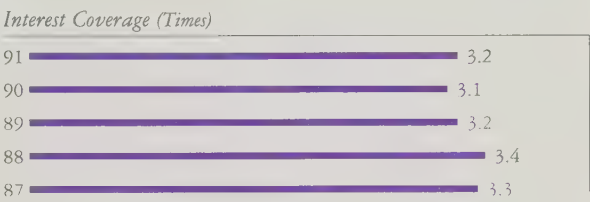
Recognizing the financial advantage in redeeming high-rate first mortgage bond issues, in January 1992 the Company redeemed a number of such issues totalling \$116.5 million, using short-term debt pending long-term financing. The Company anticipates that further debenture issues will be required in the next few years, given the expected level of capital expenditures and maturing first mortgage bond issues, net of cash generated from operations.

*Financial Ratios and Debt Ratings*

In order to lower B.C. Tel’s financial risk, the Company has reduced the percentage of debt and preferred share capital in its capital structure and increased its common equity ratio from 43 % in 1987 to 47 % in 1991. The Company intends to continue increasing its common equity ratio concurrent with changes in its operating environment which bring about an increase in business risk. Interest coverage has remained above three times for the last five years.



Following reviews of the Company’s financial position in the last quarter of 1991, both Canadian bond rating services maintained the Company’s bond and debenture ratings at the levels to which they had been upgraded in 1990. Canadian Bond Rating Service rates B.C. Tel’s first mortgage bonds and debentures A + (High) and A + , respectively, whereas Dominion Bond Rating Service rates the bonds AA and the debentures AA(low).



## **Regulatory Environment**

### *Long Distance Competition*

During 1991, the Canadian Radio-television and Telecommunications Commission (CRTC) examined applications by Unitel Communications Inc. and B.C. Rail/Lightel for approval to offer long distance voice telephone services in competition with B.C. Tel and other telephone companies. On August 23, 1991, B.C. Tel filed its final written argument with the CRTC opposing bids by both applicants to enter the long distance market. B.C. Tel's argument summarized evidence proving that Canada has a world-class, technologically-advanced telecommunications system, and that Canadians enjoy overall rates that are among the lowest in the world. These overall rates are lower than those in all countries where competition has already been introduced – Britain, Japan and the U.S.

B.C. Tel strongly believes that the public interest would be best served by building on the proven success and efficiencies of the existing system. Over the next decade, without the introduction of competition of the type proposed by Unitel, B.C. Tel would continue to introduce major reductions in long distance rates while at the same time maintaining universally affordable basic local rates.

The CRTC's decision in this matter is important to the Company and its shareholders since revenues from long distance voice telephone services account for 40% to 50% of B.C. Tel's operating revenues. The long distance revenues provide significant contribution to access costs, thereby helping to maintain local service rates at socially desirable levels. B.C. Tel has pointed out that the competitive entry sought by Unitel is predicated on its receiving a market entry subsidy in

the form of contribution obligations well below those borne by B.C. Tel; in the Company's view, such subsidized competition cannot be justified and should not be allowed. Although the CRTC's decision is expected in the first half of 1992, significant impacts on the Company's operations, if any, are not anticipated before 1993.

### *Earnings Regulation*

The Company's revenue requirement is set by the CRTC using rate of return methodology. The Company's allowable return on ordinary equity for regulatory purposes was last set at 13% – 14% in December 1988. In 1991, the Company's regulated return was 13.6%, slightly lower than the actual return of 13.8% due to a number of regulatory adjustments to net income and capital. The Company expects to earn a regulated return on ordinary equity within the allowable range in 1992. A review of the Company's allowable return on ordinary equity for regulatory purposes is not expected in 1992.

*To our Shareholders:*

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Company and its subsidiaries. These statements which have been prepared in accordance with generally accepted accounting principles necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal control which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines which require employees to maintain the highest ethical standards.

The Company's independent auditors, Arthur Andersen & Co., have been appointed by the shareholders to express an opinion as to whether these consolidated financial statements present fairly the Company's consolidated financial position and operating results in accordance with generally accepted accounting principles. Their report follows.

The Board of Directors has reviewed and approved these consolidated financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to review internal accounting controls, audit results and accounting principles and practices. The committee's terms of reference are available, on request, to shareholders.



Vice-President  
Finance and Administration  
and Treasurer

*To the Shareholders of British Columbia Telephone Company*

We have audited the consolidated balance sheets of British Columbia Telephone Company (incorporated under an Act of the Parliament of Canada) as at December 31, 1991 and 1990 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, the consolidated financial statements appearing on pages 37 to 48, inclusive, present fairly, in all material respects, the financial position of the Company as at December 31, 1991 and 1990 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

*Arthur Andersen & Co.*

Chartered Accountants

Vancouver, B.C.

January 24, 1992

## CONSOLIDATED STATEMENT OF EARNINGS

<i>Years Ended December 31 (\$ Millions)</i>	<i>1991</i>	<i>1990</i>
<i>Operating revenues</i>		
Local service	\$ 705.0	\$ 646.1
Long distance service	920.1	900.1
Directory advertising, equipment sales and other, net	320.1	306.4
	<u>1,945.2</u>	<u>1,852.6</u>
<i>Operating expenses</i>		
Operations	1,157.6	1,095.0
Depreciation	295.7	303.5
	<u>1,453.3</u>	<u>1,398.5</u>
<i>Operating earnings</i>	491.9	454.1
Other income	8.8	12.1
<i>Earnings before debt service costs and income taxes</i>	500.7	466.2
Debt service costs, net (Note 2)	144.8	138.2
<i>Earnings before income taxes</i>	355.9	328.0
Income taxes (Note 3)	154.9	134.8
<i>Net earnings</i>	201.0	193.2
Preference and preferred share dividends	9.8	12.6
<i>Ordinary share earnings</i>	<u>\$ 191.2</u>	<u>\$ 180.6</u>
<i>Earnings per ordinary share</i>	\$ 1.78	\$ 1.72
<i>Average ordinary shares outstanding (Thousands)</i>	107,594	104,857

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

<i>Years Ended December 31 (\$ Millions)</i>	<i>1991</i>	<i>1990</i>
Balance at beginning of year as previously reported	\$ 509.8	\$ 443.9
Less – Prior period adjustment (Note 13)	—	5.2
As restated	509.8	438.7
Net earnings	201.0	193.2
	<u>710.8</u>	<u>631.9</u>
Less – Preference and preferred share dividends	9.8	12.6
– Ordinary share dividends	118.4	107.0
– Premium on redemption of preferred shares (Note 6c)	—	2.5
Balance at end of year	<u>\$ 582.6</u>	<u>\$ 509.8</u>

# CONSOLIDATED BALANCE SHEET

December 31 (\$ Millions)

1991

1990

## Assets

### Property, Plant and Equipment

Buildings, plant and equipment (Note 7b and Note 10c)	\$ 4,918.4	\$ 4,738.0
Less – Accumulated depreciation	1,912.2	1,850.6
	3,006.2	2,887.4
Land	38.6	35.7
Property under construction	161.1	155.9
Materials and supplies	55.1	50.9
	3,261.0	3,129.9

### Current Assets

Accounts receivable (Note 4)	315.9	304.9
Other current assets	33.4	40.7
	349.3	345.6

### Investments and Other Assets

Investments (Note 1a)	28.3	27.4
Instalment contracts	49.7	40.0
Goodwill (Note 1a)	20.7	2.7
Deferred charges (Note 5)	38.9	39.2
	137.6	109.3
	<u>\$ 3,747.9</u>	<u>\$ 3,584.8</u>

## Capitalization and Liabilities

### Capitalization

Equity (Note 6)		
Ordinary shares	\$ 1,459.8	\$ 1,330.5
Preference and preferred shares	154.4	159.4
	1,614.2	1,489.9
Minority interest (Note 1a)	2.2	—
Long-term debt (Note 7)	1,160.6	1,226.0
	2,777.0	2,715.9

Deferred Income Taxes (Note 1d)	322.2	325.4
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### Current Liabilities

Cheques issued in excess of bank balances net of temporary investments (at cost – approximates market value)	.7	26.3
Short-term obligations (Note 8)	307.5	190.5
Accounts payable and accrued liabilities	256.3	234.0
Income taxes payable	—	14.0
Dividends payable	32.4	29.5
Unearned revenues	51.8	49.2
	648.7	543.5

### Commitments and Contingent Liabilities (Note 10)

	<u>\$ 3,747.9</u>	<u>\$ 3,584.8</u>
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Approved by the Directors,

  
Director

  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 31 (\$ Millions)	1991	1990
<i>Cash from Operating Activities:</i>		
Net earnings	\$ 201.0	\$ 193.2
Depreciation	295.7	303.5
Deferred income taxes	(3.2)	(14.0)
Allowance for funds used during construction	(13.0)	(13.0)
Other, net	(3.5)	(3.3)
	477.0	466.4
Decrease in non-cash working capital (Note 9)	10.1	18.7
Cash from operations	487.1	485.1
Less – Dividends to shareholders	128.2	119.6
	358.9	365.5
<i>Cash from Financing Activities:</i>		
Ordinary shares issued	56.1	37.2
Shares issued by subsidiary to minority shareholder	2.0	—
Long-term debt issued	211.2	239.1
Increase (decrease) in promissory notes and bank loans	2.3	(134.1)
	271.6	142.2
Redemptions of long-term debt	(161.9)	(40.1)
Redemptions of preferred shares	(4.6)	(54.6)
	105.1	47.5
<i>Cash Used in Investing Activities:</i>		
Capital expenditures	460.7	461.6
Increase (decrease) in materials and supplies capitalized	4.2	(3.4)
Salvage value of plant retired, net	(38.1)	(8.3)
Allowance for funds used during construction	(13.0)	(13.0)
Increase in investments and other assets	24.6	.7
Decrease in deferred income taxes	—	5.0
	438.4	442.6
<i>Cash Position:</i>		
Net increase (decrease) during the year	25.6	(29.6)
Beginning of year	(26.3)	3.3
End of year	(.7)	(26.3)
<i>Represented by:</i>		
Cheques issued in excess of bank balances	(18.7)	(44.6)
Temporary investments	18.0	18.3
	\$ (.7)	\$ (26.3)

## 1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry. These statements conform in all material respects with International Accounting Standards.

The term 'Company' is used to mean British Columbia Telephone Company and, where the context of the narrative permits or requires, its subsidiaries.

British Columbia Telephone Company operates in a single industry segment which is telecommunications services. The Company is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). In its role as regulator, the CRTC sets allowable rates of return, approves equity financing, approves tariffs for certain of the Company's goods and services and periodically issues directives which affect the accounting treatment of specific items in the Company's accounts.

### *(a) Consolidation*

The consolidated financial statements include the accounts of all the Company's wholly-owned subsidiaries of which the principal ones are B.C. Cellular Limited, B.C. Mobile Ltd., Canadian Telephones and Supplies Ltd., Microtel Limited, MPR Teltech Ltd., Telecom Leasing Canada (TLC) Limited and 3S Systems Support Services Ltd. In October 1991, B.C. Mobile Ltd. purchased the assets of National Pagette Ltd.'s paging and telephone answering business in B.C. for \$33.0 million.

The Company's 51%-owned subsidiary, ISM Information Systems Management (B.C.) Corporation, which is also included in the consolidated financial statements, commenced business on November 29, 1991. The minority interest shown on the consolidated balance sheet includes the results of operations to December 31, 1991.

The Company holds investments in Prism Systems Inc. and CANAC-Microtel, which are accounted for using the equity method, and Telesat Canada and Telesystems SLW Inc., which are accounted for at cost.

Goodwill, which represents the excess of the cost of acquired business over the fair value attributed to the net identifiable assets, is amortized over periods not exceeding 20 to 30 years.

All significant intercompany transactions have been eliminated except for the acquisition of telecommunications equipment and supplies which are capitalized at cost to the parent company in the consolidated balance sheet, and included in the consolidated statement of earnings. To the extent that any income on these sales has not been offset by depreciation and other operating expenses, it remains in consolidated earnings and retained earnings.

### *(b) Property, Plant and Equipment (Property)*

Property is recorded at historical cost and with respect to self-constructed property, includes certain payroll costs and general overheads. In addition, the Company capitalizes an amount for the cost of funds used to finance construction. This allowance for funds used during construction is included in income as an offset against debt service costs. For new telecommunications property, the capitalization rate as defined by the CRTC was 12.30% in 1991 (12.20% – 1990).

The original cost of retired telecommunications property is charged to accumulated depreciation. No gain or loss on retirement and disposal is recognized in the consolidated statement of earnings.

### *(c) Depreciation*

Depreciation rates for property are determined by a continuing program of engineering studies for each class of property, according to year of placing in service and estimated useful life. This is in compliance with regulatory requirements. Depreciation provisions are calculated on a straight-line basis using such rates. The composite depreciation rate was 6.14% for 1991 (6.68% – 1990).

*(d) Income Taxes*

The Company and its subsidiaries provide for deferred income taxes on all timing differences between accounting income and taxable income.

In July 1989, pursuant to a CRTC directive, the Company (excluding subsidiaries) adjusted its deferred income taxes to reflect the current legal rate of federal and provincial income tax. The resulting adjustment is being amortized to income tax expense over the period ending January 1994. The unamortized balance was decreased by \$6.8 million in 1991 to reflect the change in the provincial tax rate. See Note 3.

*(e) Translation of Foreign Currencies*

Trade transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions. Amounts payable and receivable in foreign currencies are reflected in the consolidated financial statements in equivalent Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Currency gains and losses are included in net earnings for the year except for gains and losses on long-term debt which are amortized on a straight-line basis over the remaining periods to maturity of the related issues.

At December 31, 1991, the Company had outstanding swap agreements with commercial banks for a total amount of \$20.6 million U.S. (\$45.6 million U.S. – 1990). These agreements effectively limit the Company's foreign currency and interest rate exposure on its U.S. debt. The swap agreements mature at the time the related debt matures.

*(f) Research and Development*

Product development expenditures which in management's opinion result in identifiable assets are included in deferred charges. During the year \$7.9 million (\$5.3 million – 1990) of development expenditures were deferred. Amortization of \$7.6 million (\$6.7 million – 1990) was charged to expense during the year, leaving a balance of \$12.6 million (\$12.3 million – 1990) of deferred development costs at December 31, 1991. These costs will be amortized over a period not to exceed the expected life of the related products.

All other expenditures for research, development and improvement of new and existing products and services are expensed as incurred. The amount expensed in 1991 was \$44.0 million (\$39.0 million – 1990).

*(g) Leases*

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Where the Company is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the term of the lease. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

Where the Company's subsidiary, Telecom Leasing Canada (TLC) Limited is the lessor, it acts as a financing intermediary. Finance income derived from these financing leases is recorded so as to produce a constant rate of return over the terms of the leases.

Other long-term lease rental agreements on equipment leased to customers are accounted for as operating leases. Rental income is recognized as service revenue over the term of the lease, generally five or ten years. The equipment is depreciated in accordance with the Company's existing depreciation policy.

**2. Debt Service Costs, Net**

(\$ Millions)	1991	1990
Interest on long-term debt	\$ 129.8	\$ 113.9
Other	28.0	37.3
	157.8	151.2
Less – Allowance for funds used during construction	13.0	13.0
	<u>\$ 144.8</u>	<u>\$ 138.2</u>

**3. Income Taxes**

(\$ Millions)	1991	1990
Current – Federal	\$ 103.9	\$ 100.2
– Provincial	54.2	48.6
Deferred	(3.2)	(14.0)
	<u>\$ 154.9</u>	<u>\$ 134.8</u>

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1991	1990
Combined basic federal and provincial statutory income tax rate	43.8%	42.8%
Federal large corporation capital tax	.7	1.0
Allowance for funds used during construction	(.2)	(.3)
Amortization of deferred income tax adjustment (Note 1d)	(1.7)	(2.3)
Other	.9	(.1)
Effective income tax rate per consolidated statement of earnings	<u>43.5%</u>	<u>41.1%</u>

**4. Accounts Receivable**

(\$ Millions)	1991	1990
Trade	\$ 278.3	\$ 281.9
Other	37.6	23.0
	<u>\$ 315.9</u>	<u>\$ 304.9</u>

**5. Deferred Charges**

(\$ Millions)	1991	1990
Pension plan contributions in excess of charges to income	\$ 13.0	\$ 15.6
Cost of issuing debt securities, less amortization	8.8	7.9
Other	17.1	15.7
	<u>\$ 38.9</u>	<u>\$ 39.2</u>

## 6. Equity

### (a) Details of Shareholders' Equity

(\$ Millions)	1991	1990
Ordinary		
Ordinary shares without par value:		
108,746,326 shares outstanding (105,697,700 – 1990)	\$ 871.8	\$ 815.7
Retained earnings	582.6	509.8
Contributed surplus	5.4	5.0
	<u>1,459.8</u>	<u>1,330.5</u>

### Preference and Preferred (Note 6e)

		Redemption Premium		
Par value of \$100 each, cumulative				
6% Preference	10.0%	1.0	1.0	
4 3/8% Preferred	4.0%	6.0	6.0	
4 1/2% Preferred	4.0%	5.0	5.0	
4 3/4% Preferred	5.0%	7.5	7.5	
4 3/4% Preferred (Series 1956)	4.0%	7.5	7.5	
5.15% Preferred	5.0%	12.0	12.0	
5 3/4% Preferred	4.0%	10.0	10.0	
6% Preferred	5.0%	4.5	4.5	
Par value of \$25 each, cumulative				
4.84% Preferred	4.0%	20.0	20.0	
6.80% Preferred	6.0%	10.0	10.0	
7.04% Preferred	5.75%	20.0	20.0	
7.40% Preferred	3.0%	30.5	33.5	
7.65% Preferred	2.0%	20.4	22.4	
		<u>154.4</u>	<u>159.4</u>	
Total Equity		<u>\$ 1,614.2</u>	<u>\$ 1,489.9</u>	

### (b) Authorized Capital

The Company is authorized, subject to directors' and shareholders' approval, to issue shares with or without par value up to the nominal amount of \$1,250.0 million. As at December 31, 1991 the total approved share capital of the Company was \$1,250.0 million (\$1,250.0 million – 1990).

### (c) Changes During 1991

#### Ordinary shares

The Company issued 2,822,026 shares during 1991 (1,974,416 – 1990) for \$52.4 million (\$34.0 million – 1990) through the Dividend Reinvestment and Share Purchase Plan.

The Company issued 226,600 shares during 1991 (219,200 – 1990) for \$3.7 million (\$3.2 million – 1990) through the Long-Term Incentive Share Option Plan (LISOP).

**6. Equity (continued)**

*(c) Changes During 1991 (continued)*

Preferred shares

In accordance with purchase obligations for the 7.40 % and 7.65 % preferred shares, the Company redeemed 120,000 of 7.40 % preferred shares (60,000 – 1990) with a par value of \$3.0 million (\$1.5 million – 1990) and 80,400 of 7.65 % preferred shares (40,200 – 1990) with a par value of \$2.0 million (\$1.0 million – 1990).

On June 15, 1990, the Company redeemed the 11.24 % preferred shares with a par value of \$50.0 million at a price of \$26.25 per share in accordance with the terms of redemption. The premium of \$2.5 million was charged to retained earnings.

*(d) Ordinary Shares Reserved*

At December 31, 1991 the following shares remained reserved:

- 2,979,346 shares for issuance under the Dividend Reinvestment and Share Purchase Plan as approved by the CRTC on October 28, 1982. The purchase price for the plan is based on the average market price in the calendar month immediately preceding the investment date.
- 827,216 shares under the LISOP. Under the terms of the LISOP, the Company has granted key employees options to purchase ordinary shares at fixed exercise prices as follows:

<i>Year Options Granted</i>	<i>Options Granted</i>	<i>Options Outstanding</i>	<i>Exercise Price</i>
1991	270,600	248,300	\$ 19.125 – 20.00
1990	199,700	107,200	17.75
1989	206,400	62,000	14.75
1988	234,000	6,800	14.00

Options granted may be exercised over specific periods not to exceed 10 years from the date granted.

*(e) Preferred Share Purchase Obligations and Redemption Requirements*

Purchase obligations apply to two issues:

- 7.40 % preferred shares are subject to a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 12 month period commencing July 15, 1979, 60,000 shares at a price not exceeding \$25 per share excluding costs of purchase.
- 7.65 % preferred shares are subject to a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 12 month period commencing August 1, 1978, 40,200 shares at a price not exceeding \$25 per share excluding costs of purchase.

Other issues are redeemable at the stated redemption premium at the Company's option.

## 7. Long-Term Debt

### (a) Details of Long-Term Debt

(\$ Millions)		1991	1990
First Mortgage Bonds			
Series M	6 3/8 % due March 15, 1991	\$ —	\$ 30.0
Series O	9 5/8 % due November 15, 1992	18.0	18.0
Series P	9 1/8 % due November 15, 1992	.5	.5
Series Q	8 1/4 % due March 1, 1994	35.0	35.0
Series S	7 7/8 % due November 15, 1995	25.0	25.0
Series T	8 5/8 % due October 15, 1993	40.0	40.0
Series U	8 1/8 % due November 1, 1996 (\$20.0 million U.S.)	23.1	23.3
Series V	9 % due October 1, 1997	40.0	40.0
Series X	9 1/4 % due April 15, 1998	35.0	35.0
Series Y	11 % due January 15, 1996	45.0	45.0
Series AA	10 1/4 % due April 1, 1995	30.0	30.0
Series AD	10 1/4 % due October 15, 2001	60.0	60.0
Series AE	9.70 % due June 15, 1999	50.0	50.0
Series AF	9 7/8 % due November 1, 2003	75.0	75.0
Series AG	14 1/4 % due April 1, 1991	—	72.7
Series AH	16 3/8 % due April 1, 1992	87.4	88.4
Series AK	11 % due February 15, 1999	40.6	40.6
Series AL	11.35 % due November 15, 2005	125.0	125.0
Series AM	9.50 % due May 12, 1994	50.0	50.0
Series AN	10.50 % due June 12, 2000	125.0	125.0
		904.6	1,008.5
Debentures			
Series 1	12 % due May 31, 2010	50.0	50.0
Series 2	11.90 % due November 22, 2015	125.0	125.0
Series 3	10.65 % due June 19, 2021	175.0	—
		350.0	175.0
Other long-term debt issued at varying rates of interest from 8.00 % to 12.84 % and maturing on varying dates from 1992 to 2001		117.0	120.3
Amounts due under capitalized leases (Note 10c) at varying rates of interest up to 14.70 % and maturing on varying dates up to 1997		29.4	47.9
Total debt		1,401.0	1,351.7
Less – Current maturities including amounts to be redeemed on January 17, 1992 (Note 8 and Note 15)		240.4	125.7
Long-Term Debt		\$ 1,160.6	\$ 1,226.0

## 7. Long-Term Debt (continued)

### (b) First Mortgage Bond Issue Requirements

The Company's property is subject to liens under the Deed of Trust and Mortgage dated March 1, 1946 under which the First Mortgage Bonds are issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the original principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1 1/2% of the principal. In 1991, sinking fund payments were made in respect of the Series AH First Mortgage Bonds and additional unmortgaged property was pledged in respect of all other outstanding bonds.

### (c) Debenture Issue Requirements

Debentures are issued under the Trust Indenture dated May 31, 1990 and are not secured by any mortgage, pledge or other charge. While the Trust Indenture is in effect, further issues of First Mortgage Bonds are not permitted. New issues of debentures are subject to restrictions as to debt ratio and interest coverage as defined in the Trust Indenture.

### (d) Redemption/Retraction Provisions

The Series Q, S, T, V and X First Mortgage Bonds may be redeemed in 1992 from funds having an interest cost that is less than the interest cost of these bonds.

The Series AK Bonds are retractable at the option of the holder on February 15, 1994, at which date the Company has the option to set a new rate of interest or to redeem the bonds.

The debentures may not be redeemed prior to maturity.

### (e) Long-Term Debt Maturities

Long-term debt maturities, excluding capital lease maturities, during each of the next five years are:

(\$ Millions)

1992	\$	232.0
1993		80.3
1994 (Excluding Series AK)		100.1
1995		42.3
1996		16.0

### (f) Promissory Notes

Promissory notes are issued to obtain funds pending long-term financing.

At December 31, 1991, the Company had in place aggregate lines of credit totalling \$294.2 million (\$308.2 million – 1990) of which \$181.0 million (\$223.0 million – 1990) represents long-term agreements for revolving loan facilities. Drawdowns under the agreements are by way of promissory notes issued at either fixed or floating interest rates for periods of up to five years. Short-term obligations in the amount of \$52.7 million (\$46.5 million – 1990) can be converted to long-term debt under these arrangements.

## 8. Short-Term Obligations

Amounts due for redemption within one year including short-term indebtedness pending permanent financing are as follows:

(\$ Millions)

	1991	1990
Promissory notes and bank loans issued at varying rates of interest from		
7.41% to 13.08%	\$ 67.1	\$ 64.8
Current maturities of long-term debt	240.4	125.7
	<u>\$ 307.5</u>	<u>\$ 190.5</u>

## 9. Working Capital

Decrease in non-cash working capital:

(\$ Millions)	1991	1990
Accounts receivable	\$ (11.0)	\$ 29.4
Other current assets	7.3	(17.8)
Accounts payable and accrued liabilities	22.3	(1.2)
Income taxes payable	(14.0)	5.4
Dividends payable	2.9	2.4
Unearned revenues	2.6	.5
	<u>\$ 10.1</u>	<u>\$ 18.7</u>

## 10. Commitments and Contingent Liabilities

(a) The Company estimates capital expenditures for additional property to be \$480 million in 1992. Substantial purchase commitments have been made in connection with these expenditures.

(b) The Company has provided guarantees regarding the supply of equipment for the North Warning System project by its subsidiary company, Microtel Limited. The guarantees provide for the full performance and fulfillment of all obligations arising from the contract.

(c) Property includes equipment of \$29.8 million (\$71.1 million – 1990) held under capital leases. Accumulated depreciation as at December 31, 1991 relating to this equipment amounts to \$2.0 million (\$26.9 million – 1990).

The Company occupies leased premises in various centres across Canada and has land and equipment under operating leases expiring in periods from one to seventy years.

At December 31, 1991, the future minimum lease payments under capital leases and operating leases were:

(\$ Millions)	Capital	Operating
1992	\$ 11.1	\$ 31.2
1993	8.4	19.1
1994	6.3	9.4
1995	4.6	6.2
1996	4.2	4.7
Thereafter	1.9	127.8
Total future minimum lease payments	36.5	<u>\$ 198.4</u>
Less imputed interest	<u>7.1</u>	
	<u>\$ 29.4</u>	

**11. Pension Plans**

Pension plans are maintained for substantially all employees. The Telecommunications Workers Union sponsored pension plan for bargaining unit employees requires the Company to contribute a fixed percentage of employee gross earnings to trust funds.

Actuarial valuations are prepared for Company sponsored plans at least every three years and the Company pays into trust funds the amounts recommended by the actuary.

Accrued pension costs for accounting purposes are determined in accordance with generally accepted accounting principles, using management's best estimate assumptions of future events. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses and the initial net plan assets and obligations on January 1, 1987 are amortized over the expected average remaining service life of the employee group covered by the plans. The total pension expense amounted to \$54.6 million in 1991 (\$47.5 million – 1990). The cumulative difference between the amount contributed to the pension plans and the amount charged to income is recorded in the consolidated balance sheet under deferred charges.

Based on the actuarial reports of the Company sponsored pension plans as of December 31, 1990, which used projected employee earnings in estimating the accrued pension obligations and market related value for asset valuation, a comparison of the plan assets and plan obligations projected to December 31, 1991 has been estimated as follows:

(\$ Millions)	1991	1990
Actuarial value of assets	\$ 549.5	\$ 520.4
Actuarial value of obligations	619.4	566.8
Unfunded deficit	<u>\$ (69.9)</u>	<u>\$ (46.4)</u>

**12. Related Party Transactions**

Transactions with related parties (all affiliates of GTE Corporation) were purchases and sales of telecommunications technology, equipment and supplies, directory advertising commissions and payments for services rendered under cost-sharing agreements. During the year the Company purchased goods and services from related parties amounting to \$43.3 million (\$25.5 million – 1990). Sales to related parties amounted to \$2.4 million (\$2.7 million – 1990).

**13. Prior Period Adjustment**

As a result of income and other tax reassessments applicable to the years 1979 to 1989, the beginning balance of retained earnings in 1990 has been adjusted by \$5.2 million. This adjustment, which includes tax and interest, has been reflected in the consolidated financial statements of prior periods.

**14. Prior Year Presentation**

The 1990 amounts have been reclassified, where applicable, to conform with the 1991 presentation.

**15. Subsequent Event**

On January 17, 1992, the Company redeemed \$18.0 million Series O Bonds at par, \$.5 million Series P Bonds at par, \$20.0 million U.S. Series U Bonds at a 1.025 % premium, \$45.0 million Series Y Bonds at a 1.65 % premium and \$30.0 million Series AA Bonds at a .95 % premium.

	1991	1990	1989	1988	1987
<b>Consolidated Statistics</b>					
<i>Statement of Earnings (\$ Millions)</i>					
Operating revenues	\$ 1,945.2	\$ 1,852.6	\$ 1,689.6	\$ 1,634.8	\$ 1,480.7
Local service	705.0	646.1	583.0	532.2	492.3
Long distance service	920.1	900.1	821.9	867.6	841.6
Directory advertising, equipment sales and other, net	320.1	306.4	284.7	235.0	146.8
Operating expenses	1,453.3	1,398.5	1,269.7	1,217.1	1,044.1
Debt service costs, net	144.8	138.2	126.9	116.1	120.4
Income taxes	154.9	134.8	127.5	147.3	161.1
Net earnings	201.0	193.2	177.5	159.2	149.7
Ordinary share earnings	191.2	180.6	161.7	143.2	133.5
<i>Balance Sheet (\$ Millions)</i>					
Property, plant and equipment, at cost	\$ 5,173.2	\$ 4,980.5	\$ 4,617.6	\$ 4,329.1	\$ 4,225.5
Accumulated depreciation	1,912.2	1,850.6	1,634.0	1,508.0	1,472.3
Total capitalization	3,084.5	2,906.4	2,785.4	2,549.5	2,431.6
Capital structure					
Short-term obligations	10.0%	6.5%	7.9%	8.3%	4.0%
Long-term debt	37.6%	42.2%	40.6%	39.6%	44.4%
Preference and preferred shares	5.0%	5.5%	7.6%	8.4%	8.9%
Ordinary share equity	47.4%	45.8%	43.9%	43.7%	42.7%
<i>Financial Statistics</i>					
Earnings per ordinary share	\$ 1.78	\$ 1.72	\$ 1.58	\$ 1.43	\$ 1.36
Dividends declared per ordinary share	\$ 1.10	\$ 1.02	\$ .95	\$ .91	\$ .875
Equity per ordinary share	\$ 13.42	\$ 12.59	\$ 11.80	\$ 11.07	\$ 10.50
Return on ordinary equity	13.8%	14.1%	14.0%	13.3%	13.3%
Return on ordinary equity for regulatory purposes	13.6%	13.0%	13.5%	13.7%	13.7%
Interest coverage (Times)	3.2	3.1	3.2	3.4	3.3
Average shares outstanding (Thousands)	107,594	104,857	102,098	99,852	97,886
<i>Other Statistics</i>					
Capital expenditures (\$ Millions)	\$ 460.7	\$ 461.6	\$ 474.4	\$ 402.9	\$ 303.4
Customer access lines in service (Thousands)	1,988	1,912	1,823	1,729	1,651
Customer lines served by digital switches	77%	75%	71%	65%	58%
Long distance messages (Millions)	394.3	357.3	314.8	264.4	231.3
Regular full-time employees at year end	15,015	14,997	14,027	15,157	15,151
<b>B.C. Cellular Statistics</b>					
Cellular subscribers	62,289	44,504	24,459	10,322	4,568
Penetration rate	2.6%	1.9%	1.1%	.5%	.2%
Estimated market share	56%	55%	n/a	n/a	n/a
Average monthly revenue per subscriber	\$ 95	\$ 98	\$ 93	\$ 100	\$ 108
Net earnings (\$ Millions)	\$ 6.1	\$ 4.5	\$ 1.4	\$ .1	\$ (.6)
Return on equity	24.0%	31.0%	24.5%	4.5%	(39.8%)
Gross plant in service per subscriber	\$ 1,534	\$ 1,496	\$ 1,202	\$ 1,073	\$ 1,566
Monthly deactivations (Churn Rate)	1.8%	1.5%	1.2%	1.4%	1.9%

NOTE: Prior period statistics have been reclassified, where significant, to conform with the 1991 presentation.

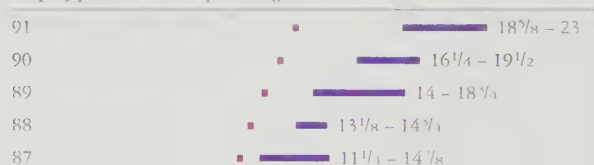
	Three Months Ended				
(\$ Millions)	Mar. 31	June 30	Sept. 30	Dec. 31	1991
<b>Quarterly Financial Data</b>					
Operating revenues	\$ 463.1	\$ 485.7	\$ 492.4	\$ 504.0	\$ 1,945.2
Operating expenses	357.4	375.8	357.7	362.4	1,453.3
Operating earnings	105.7	109.9	134.7	141.6	491.9
Other income	2.4	1.5	1.4	3.5	8.8
Earnings before debt service costs and income taxes	108.1	111.4	136.1	145.1	500.7
Debt service costs, net	37.8	31.1	37.1	38.8	144.8
Earnings before income taxes	70.3	80.3	99.0	106.3	355.9
Income taxes	29.6	36.4	43.4	45.5	154.9
Net earnings	40.7	43.9	55.6	60.8	201.0
Preference and preferred share dividends	2.5	2.5	2.4	2.4	9.8
Ordinary share earnings	\$ 38.2	\$ 41.4	\$ 53.2	\$ 58.4	\$ 191.2
Earnings per ordinary share	\$ .36	\$ .38	\$ .50	\$ .54	\$ 1.78
Average ordinary shares outstanding (Thousands)	106,449	107,289	107,953	108,685	107,594

	1991	1990
<b>Ordinary Share Statistics</b>		
Number of registered ordinary shareholders	13,971	14,524
Number of shares outstanding at December 31	108,746,326	105,697,700
Volume of shares traded	16,011,433	14,988,600
The Toronto Stock Exchange price range (high-low)		
First Quarter	\$ 20 1/2 – 18 5/8	\$ 19 – 17 5/8
Second Quarter	20 3/4 – 19 1/8	19 – 16 1/4
Third Quarter	20 3/8 – 18 3/4	18 3/8 – 16 5/8
Fourth Quarter	23 – 19	19 1/2 – 16 7/8

Geographic Distribution (%)	Shareholders		Shares	
	1991	1990	1991	1990
British Columbia	55.2	56.2	10.8	12.9
Other Canadian	43.3	42.3	88.6	86.4
Foreign	1.5	1.5	.6	.7
	100.0	100.0	100.0	100.0

#### Equity Per Ordinary Share and Market Trading Range (\$)

■ Equity per share ■ TSE price range



**Principal Ownership**

At December 31, 1991, Anglo-Canadian Telephone Company of Montreal (a wholly-owned subsidiary of GTE Corporation) owned 54,671,596 shares, or 50.3% of the total ordinary shares outstanding.

**Dividend Reinvestment and Share Purchase Plan**

The Company maintains a plan whereby holders of all classes of shares can elect to acquire ordinary shares through automatic reinvestment of dividends and investment of optional contributions. The plan provides a discount of 5% on the price of ordinary shares purchased with reinvested ordinary share dividends and allows for optional contributions of up to \$20,000 per calendar year for the purchase of additional ordinary shares. Further information is available by contacting Investor Relations.

**Ordinary Share Dividends**

Dividends are payable quarterly on the first day of January, April, July and October. In 1991, dividends declared amounted to \$.26 per share for the first quarter, increasing to \$.28 for the second, third and fourth quarters, for an annual total of \$1.10.

**Market Trading**

Shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges. The ordinary shares symbol is BCT.

**Transfer Agent and Registrar**  
Montreal Trust Company**Duplicate Annual Reports**

Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

**Annual Meeting**

The Annual General Meeting of the Shareholders will be held on Thursday, April 16, 1992 at 10:00 a.m. in the Auditorium of the British Columbia Telephone Company Building, 3777 Kingsway, Burnaby, B.C., Canada.

**Investor Inquiries**

Additional financial information or copies of Annual and Interim Reports may be obtained by writing to:

Investor Relations  
19th Floor, 3777 Kingsway  
Burnaby, B.C. V5H 3Z7

Investors in the Vancouver area or outside of Canada may call (604) 432-2413, while investors elsewhere in Canada may call free of charge 1-800-663-9405. Fax (604) 434-9467.

**\*Directors**

Gordon F. MacFarlane<sup>2</sup>  
*Chairman*  
*British Columbia*  
*Telephone Company*

Brian A. Canfield  
*President and*  
*Chief Executive Officer*  
*British Columbia*  
*Telephone Company*

G. Neldon (Mel) Cooper C.M.<sup>3</sup>  
*President*  
*Seacoast Communications*  
*Group Inc., Victoria, B.C.*

Kent B. Foster<sup>2 3</sup>  
*President*  
*GTE Telephone*  
*Operations Group,*  
*Irving, Texas*

M. Rendina K. Hamilton Q.C.<sup>3</sup>  
*Barrister & Solicitor*  
*Kelowna, B.C.*

Gerald H.D. Hobbs<sup>2</sup>  
*Private Investor*  
*Vancouver, B.C.*

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*Chief Executive Officer*  
*GTE Corporation,*  
*Stamford, Connecticut*

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*Company Director*  
*Vancouver, B.C.*

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*Chief Executive Officer*  
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*& Associates Ltd.,*  
*Richmond, B.C.*

Barbara J. Rae<sup>1</sup>  
*President and*  
*Chief Executive Officer*  
*ADIA Canada Ltd.,*  
*Vancouver, B.C.*

W. Robert Wyman<sup>2</sup>  
*Chairman and*  
*Chief Executive Officer*  
*British Columbia Hydro*  
*and Power Authority,*  
*Vancouver, B.C.*

**\*Officers**

Gordon F. MacFarlane  
*Chairman*

Brian A. Canfield  
*President and*  
*Chief Executive Officer*

Robert F. Alexander  
*Vice-President*  
*(on loan to Victoria*  
*Commonwealth Games Society)*

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*Legal and Corporate Affairs*  
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*Vice-President,*  
*Business Planning*

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*Vice-President,*  
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*Finance and Administration*  
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*Vice-President,*  
*Emerging Business*

Arthur R. Tymos  
*Assistant Treasurer*

Betty J. Rumford  
*Assistant Corporate Secretary*

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the Compensation Committee

<sup>3</sup> Member of the Pension Trust Committee

<sup>4</sup> Appointed Chairman Emeritus,  
 GTE Corporation, effective May 1, 1992.

\* As of December 31, 1991



British Columbia  
Telephone Company  
3777 Kingsway  
Burnaby, B.C.  
V5H 3Z7

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